Newfoundland Labrador

The ECONOMIC REVIEW

2012

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Newfoundland Labrador

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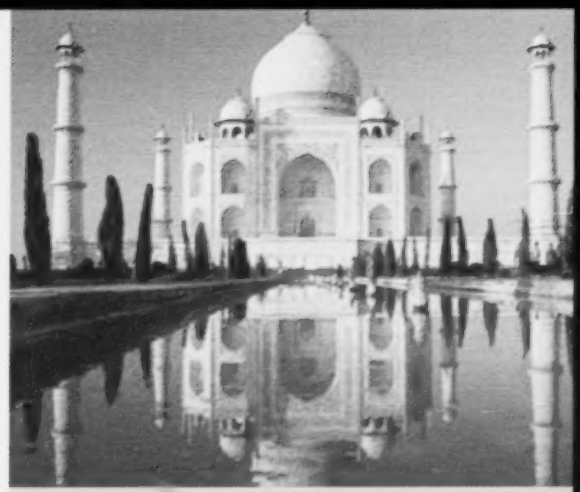
Global Economic Environment



World

2012 has been a year of weak growth for most developed countries, and one of slowing economic growth for developing nations. The sovereign debt crisis in Europe and policy uncertainty in the U.S. have constrained investment and hiring in those regions, causing subsequent declines in the demand for manufactured goods from developing nations, most notably China. This has resulted in lower commodity prices, which could have major ramifications for Canada, Australia and other resource-rich economies if sustained for an extended period.

Europe has spent the better part of the last two years fighting to contain sovereign debt problems that have emerged in Greece, Portugal, Ireland, Spain and Italy. So far, austerity measures, combined with euro area commitments to bail out troubled national governments and to reform banking regulations, have mostly contained the borrowing costs of the troubled nations. As of October 2012, yields on 10-year government bonds in these nations had declined an average of 3.6 percentage points from the beginning of the year. However, Europe is starting to experience the side-effects of the austerity measures implemented to rein in government spending. In the third quarter of 2012, real GDP growth in the European Union (EU) was essentially flat, following three consecutive quarters of negative growth. Spain and Italy have experienced five quarters of negative real GDP growth through the third quarter of 2012, while

Real GDP Growth (%)

	2011	2012f	2013f
World	**3.8**	**3.3**	**3.6**
Brazil	2.7	1.5	4.0
India	6.8	4.9	6.0
Russia	4.3	3.7	3.8
China	9.2	7.8	8.2
Canada	**2.6**	**2.0**	**2.1**
United States	**1.8**	**2.2**	**2.0**
Japan	-0.8	2.2	1.2
Australia	2.1	3.3	3.0
European Union	1.6	-0.2	0.5
United Kingdom	0.8	-0.4	1.1
Euro Area	1.4	-0.4	0.2
Ireland	1.4	0.4	1.4
Germany	3.1	0.9	0.9
France	1.7	0.1	0.4
Spain	0.4	-1.5	-1.3
Portugal	-1.7	-3.0	-1.0
Italy	0.4	-2.3	-0.7
Greece	-6.9	-6.0	-4.0

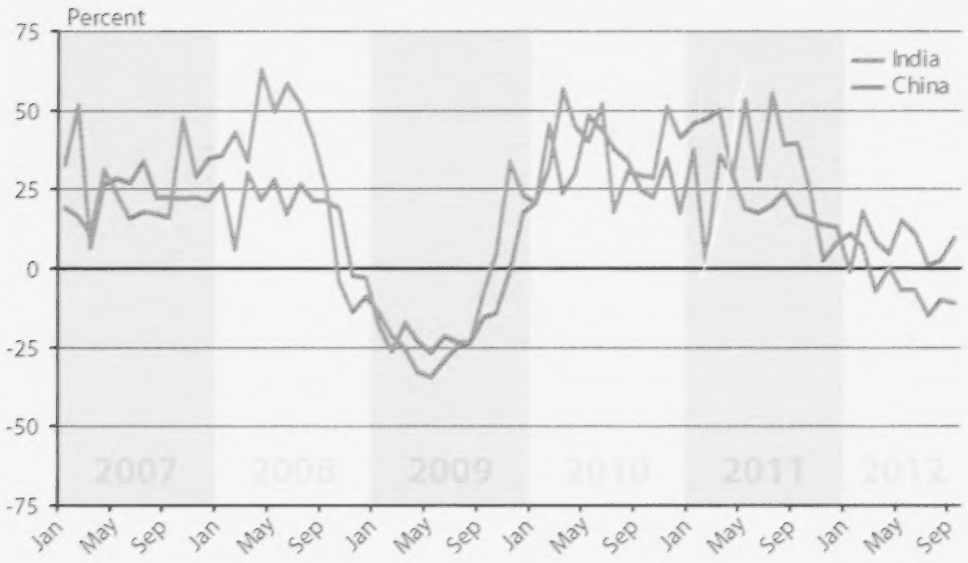
f: forecast
Source: Canada – Statistics Canada, average forecast of major Canadian banks; U.S. – Bureau of Economic Analysis, U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions – International Monetary Fund, October 2012.

Portugal had seen four straight quarters of falling real GDP through the second quarter.[1] Unemployment is reaching unprecedented levels. In the 27 EU member states the unemployment rate hit the highest mark on record in September 2012, at 10.6%. In Greece and Spain the unemployment rate has surpassed 25%.

The impacts of the recession in Europe and tepid growth in the U.S. are beginning to be felt in other regions of the world, most significantly Asia. Year-over-year growth in the value of exported goods out of China has slowed from a post-recession high of 48.4% in May 2010 to 9.9% in September 2012 (see chart). The picture is worse in India, where year-over-year growth in the export of goods has been negative for six of the last seven months (see chart). This slowdown has been reflected in prices for major commodities. Brent crude oil prices, the benchmark for globally traded oil, have fallen

1 Eurostat, the official statistical agency of the EU, has not published quarterly GDP data for Greece since the first quarter of 2011. Real GDP growth in that quarter for Greece, at a seasonally adjusted annual rate, was 0.7%.

Year-over-Year Change in Value of Merchandise Exports



Source: World Trade Organization

from US$125.45/barrel in March 2012 to US$111.71/barrel in October, even with civil unrest in Syria and Israeli-Iranian tensions on the rise in the Middle East. Meanwhile, iron ore prices, as of early November, have fallen roughly 20% from April highs. Likewise, the Bank of Canada's commodity price index was down 3.0% from March to October.

China's quarterly year-over-year real GDP growth has slowed for at least 10 consecutive quarters, coming in at 7.7% for the third quarter of 2012. In India, annualized quarterly real GDP growth was 3.1% in the second quarter of 2012, having fallen from 7.7% in the same quarter of 2011. The International Monetary Fund (IMF) is projecting China's real GDP growth to be 7.8% in 2012 and 8.2% in 2013. India is forecast to record 4.9% growth in 2012 and 6.0% in 2013.

Globally, the IMF is forecasting real GDP to grow by 3.3% in 2012 and 3.6% in 2013, down from growth of 3.8% in 2011 and 5.1% in 2010.

United States

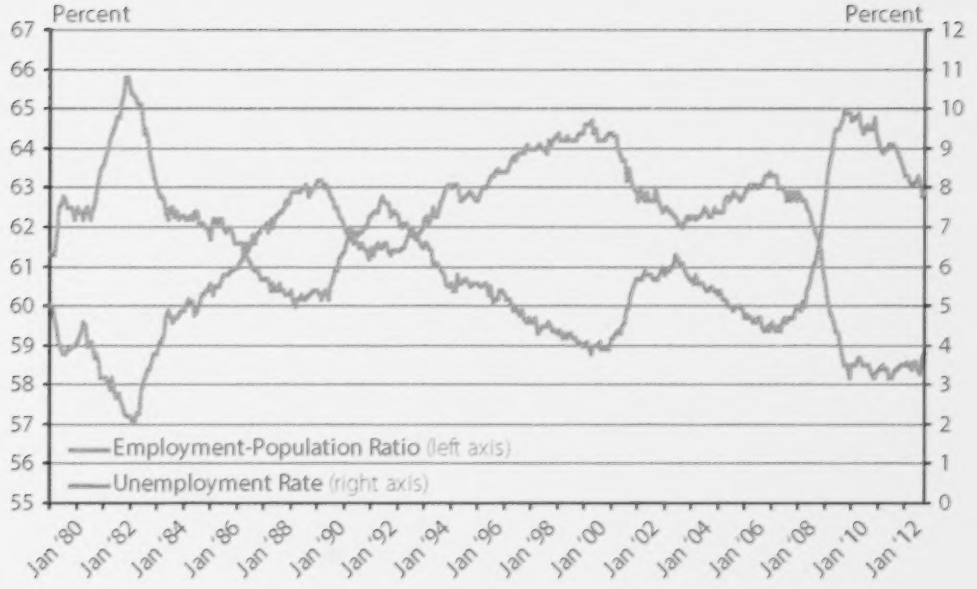
The U.S. ended 2011 with considerable economic momentum, only to see it slow and stagnate throughout 2012. After climbing to an annualized rate of 4.1% in the fourth quarter of 2011, real GDP growth did not top 2.0% through the first three quarters of 2012.

The slowing of economic growth globally and unresolved domestic fiscal policy issues constrained growth in the U.S. in 2012. Financial institutions remain unclear about future regulations and businesses in general are uncertain about future tax burdens and government spending with the federal government's "fiscal cliff" looming at the end of December 2012. The "fiscal cliff" involves $560 billion in net savings stemming from automatic tax increases and spending cuts designed to reduce the deficit in fiscal 2013. These measures became written into legislation due to a failure by the Democrats and Republicans to reach a consensus in 2011 on how to reduce government debt. Financial and business apprehension, due to both global and domestic risks, has manifested itself in the form of an increased tendency by firms to hold cash and forgo hiring. Chequable deposits and currency held by nonfinancial corporations, as a percent of total liabilities, have risen steadily from 0.2% in the fourth quarter of 2008, in the middle of the recession, to 2.8% in the second quarter of 2012, a rate not seen since the mid-1990s. At the same time, employment growth has been weak. Although the unemployment rate was below 8% in September and October (the first time since January 2009) employment growth has barely kept pace with population growth. The employment-population ratio has remained stubbornly below 59% since September 2009, after being over 60% for most of the previous 25 years (see chart).

While economic conditions remain tenuous in the United States, some encouraging trends are emerging. In particular, there is a growing resurgence in the housing sector. In October, both housing starts and building permits were near their highest levels since July 2008, while new home sales were also near the highest level in more than two years. In addition to these positive signs in the housing market, real disposable income has grown at an average monthly annualized rate of 2.3% through the first nine months of 2012 and real consumer spending grew at an annualized rate of 5.0% in September, its largest gain in seven months.

The latest Federal Reserve Bank of Philadelphia Survey of Professional Forecasters indicates real GDP in the U.S. is expected to grow 2.2% in 2012 and 2.0% in 2013. Employment gains are expected to average 155,600 per month in 2012 and 143,300 in 2013.

U.S. Labour Market



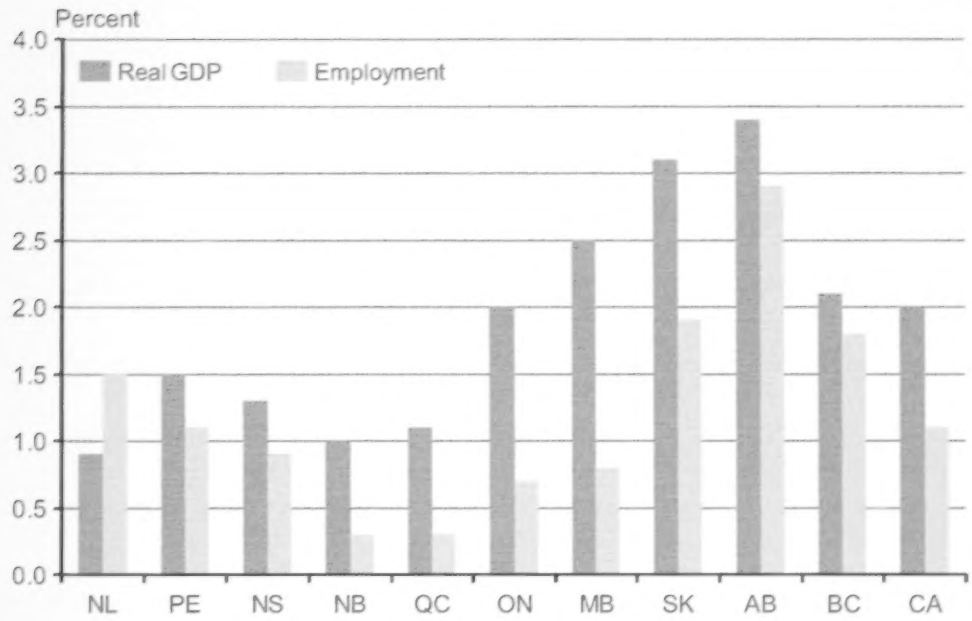
Source: U.S. Bureau of Labor Statistics

Canada

Economic activity in Canada has expanded at a faster pace than in most other major advanced economies this year, thanks primarily to easier credit availability and favourable commodity market conditions early in the year. Real GDP in Canada grew at an annualized rate of 2.0% in both the first and second quarters of 2012.

Canada's economy added 212,800 jobs between December 2011 and October 2012, while the labour force increased by 223,000. As a result, the unemployment rate fell 0.1 percentage point during the first 10 months of the year to reach 7.4% in October. Wages also appear to be gaining positive momentum, with average weekly earnings having increased to $907 in August 2012, 2.7% higher than in December 2011 and 3.6% above the same month in 2011.

GDP and Employment Growth, 2012



Source: Consensus of the major banks and Conference Board of Canada

Real GDP in Canada is expected to grow 2.0% annually in 2012 and 2.1% in 2013, according to an average estimate of forecasters, while the unemployment rate is expected to be 7.3% for both 2012 and 2013, according to the IMF. The Prairie provinces of Manitoba (+2.5%), Saskatchewan (+3.1%) and Alberta (+3.4%) are expected to see the most robust real GDP growth in 2012 (see chart). Alberta is also expected to lead the country in employment growth in 2012 (+2.9%).

Canada remains exposed to the global economy, especially any downturn that pushes down commodity prices, as has occurred in recent months. The main external risks pertain to a further escalation of the euro area debt crisis and a significant slowdown in China. On the domestic side, a sharp or sustained decline in housing prices could seriously set back a visibly leveraged household sector, which would impact consumer expenditures. Household debt in Canada, as a percent of disposable income, reached 165.8% in the second quarter of 2012, the highest rate since at least 1990.

Provincial Economic Overview

Economic conditions in Newfoundland and Labrador continued to be robust throughout 2012. Development of major projects boosted investment spending to record levels, generating employment throughout the province and raising consumer spending. As a result of the strong investment and consumer spending, domestic demand in the province is forecast to increase by 9.1%. However, real GDP is expected to remain virtually unchanged this year as investment and consumption growth is offset by a decline in exports.

Total capital investment is expected to be about $9.7 billion in 2012, a 31.7% increase over 2011. Continued development of major projects is the impetus behind this growth. Vale's nickel processing facility in Long Harbour was the single largest project under development in 2012, with an estimated $1.2 billion spent this year. Advancement of projects in the oil, iron ore mining and hydro-electric sectors, as well as solid commercial and residential expenditures, also contributed to high levels of investment spending. Housing starts are expected to total 3,880, the highest level in over 35 years. Starts in the province increased by 12.7% in the first nine months of 2012 compared to the same period in 2011.

Consumer spending has been robust this year. The value of retail sales increased by 5.3% during the first nine months of 2012 compared to the same period of 2011. While gains were recorded in most

ECONOMIC INDICATORS

	2011e	2012f	2013f	2014f	2015f
GDP at Market Prices ($ M)	33,624	32,333	34,860	32,296	32,938
% Change	17.5	-3.8	7.8	-7.4	2.0
% Change, real	3.0	0.1	6.7	-4.5	0.6
Final Domestic Demand* ($ M)	28,836	32,302	35,055	35,856	36,394
% Change	8.8	12.0	8.5	2.3	1.5
% Change, real	5.7	9.1	5.4	0.3	-0.7
Personal Income ($ M)	19,029	20,271	21,503	22,003	22,965
% Change	7.3	6.5	6.1	2.3	4.4
% Change, real	3.8	4.0	3.3	0.1	2.0
Personal Disposable Income ($ M)	14,710	15,657	16,598	16,995	17,742
% Change	7.5	6.4	6.0	2.4	4.4
% Change, real	4.0	4.0	3.3	0.2	2.0
Retail Sales ($ M)	7,830	8,271	8,575	8,860	9,200
% Change	5.1	5.6	3.7	3.3	3.8
% Change, real	1.3	6.0	2.3	1.6	2.3
Consumer Price Index (2002=100)	121.4	124.3	127.6	130.5	133.5
% Change	3.4	2.4	2.7	2.2	2.3
Capital Investment ($ M)	7,376	9,717	11,471	11,537	11,363
% Change	21.9	31.7	18.1	0.6	-1.5
% Change, real	25.8	24.2	13.8	-1.0	-4.2
Housing Starts (units)	3,488	3,880	3,882	3,537	3,479
% Change	-3.3	11.2	0.0	-8.9	-1.6
Employment (000s)	225.4	229.7	236.8	238.8	241.9
% Change	2.7	1.9	3.1	0.8	1.3
Labour Force (000s)	258.0	262.4	268.0	269.8	272.5
% Change	0.7	1.7	2.1	0.7	1.0
Unemployment Rate (%)	12.7	12.5	11.6	11.5	11.2
Population (000s)	512.9	512.7	514.7	516.0	516.8
% Change	0.2	0.0	0.4	0.2	0.1

* Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.
e: estimate; f: forecast, Department of Finance, November 2012
Source: Statistics Canada; Department of Finance

sales categories, the growth in retail sales is largely attributed to strong car sales. Almost 27,000 new cars were sold in the province from January to September, 11.6% more than the same period of 2011 (see chart). New car sales are on track to post the highest number ever recorded in the province, surpassing the previous high registered in 2010. Employment and wage gains, combined with high levels of consumer confidence, are supporting consumer spending.

Exports will have a dampening effect on GDP growth in 2012. Total exports (in real terms) are forecast to decline by 3.8% due primarily to lower oil production resulting from maintenance shutdowns at both the Terra Nova and White Rose projects (see *Oil and Gas* for more details). Lower exports of nickel will also contribute to a decrease in total exports. Exports of iron ore and refined petroleum are projected to increase this year while exports of fish products and newsprint are expected to be similar to levels recorded in 2011.

Labour Market

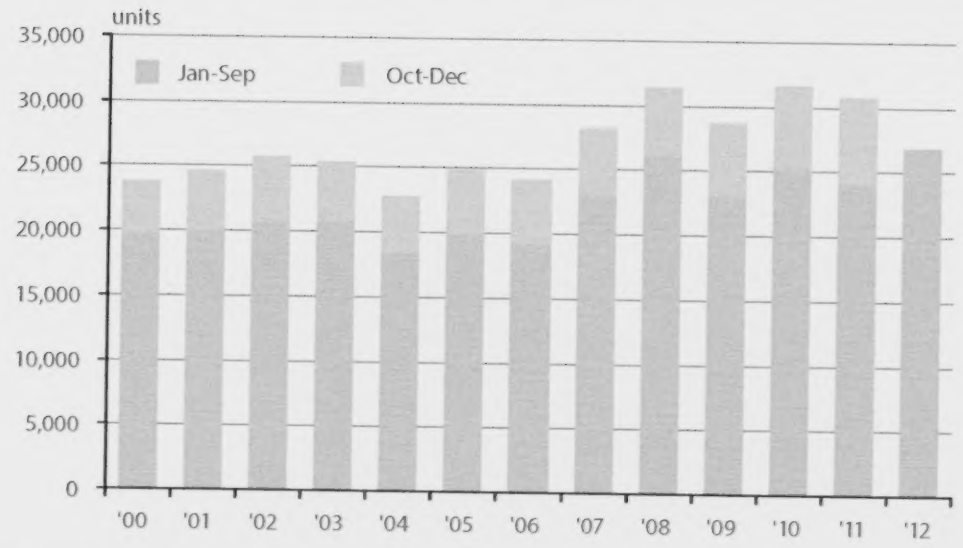
Labour market performance this year has been solid following a strong showing in 2011. Employment is forecast to increase by 1.9% in 2012 to a record high of 229,700. From January to October average employment was 1.9% higher than the same period of 2011. Year-to-date employment growth in Newfoundland and Labrador was the third highest among provinces. Job gains in 2012 have been concentrated in full-time employment. Full-time employment was up 3.4% in the first 10 months of 2012 while part-time employment declined 6.8%. Strength in labour markets has been driven in large part by major project development activity in the resource sector and related spin-offs.

Growth in employment has enticed more people to participate in the labour market, reflected in a 1.3 percentage point increase in the participation rate in the first 10 months of the year compared to the same period of last year. This resulted in a 1.8% increase in the labour force in the January to October period.

The unemployment rate is expected to decline slightly as employment gains offset the increase in the labour force. The unemployment rate is expected to average 12.5% in 2012, 0.2 percentage points lower than 2011.

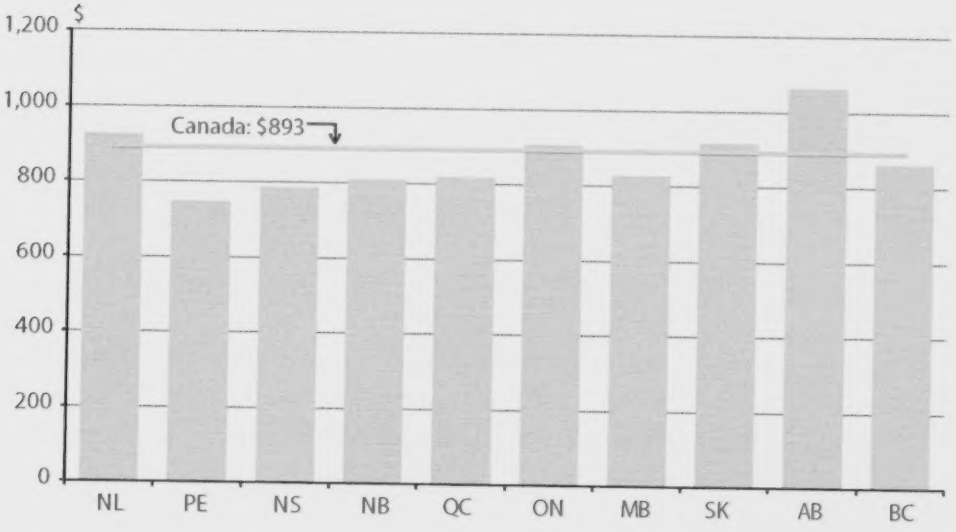
Rising wage rates have also provided evidence of a strengthening labour market. Average weekly earnings increased by 5.8% in the first eight months of the year compared to the same period in 2011. January to August average weekly earnings in Newfoundland and Labrador, at $924, were the second highest among provinces, behind only Alberta, and 3.5% above the Canadian average (see chart). Gains in employment and wages led to a 7.1% increase in labour income for the first half of 2012. Total personal income, which includes not only labour income but also other sources of income such as investments, is expected to rise by 6.5% this year.

New Car Sales



Source: Statistics Canada

Average Weekly Earnings
January to August 2012 Average



Source: Statistics Canada

Prices

On a year-over-year basis, growth in the Consumer Price Index (CPI), or inflation, was 2.3% in the first 10 months of 2012. The increase in the CPI was largely driven by a 5.0% rise in the energy price index. Higher energy costs resulted in increases in the shelter (affected by electricity and home heating fuel) and transportation (affected by gasoline) components of the CPI. The "all-items excluding energy" index rose more moderately (+1.9%). Food prices also contributed to inflation this year. The food index increased by 3.8% in the first 10 months of 2012 compared to the same period in 2011.

Population

Expansion in the economy and increasing employment have served to stabilize the province's population. Prior to 2008, the population had declined for 15 consecutive years because of high levels of out-migration. However, in recent years net out-migration has fallen and the province recorded increases in population from 2008 to 2011. Migration trends, and subsequently population levels, will continue to be impacted not only by strength in the local economy but also by labour market demand in other provinces, particularly Alberta. Preliminary data released by Statistics Canada indicates that the population of the province on July 1, 2012 was 512,659, virtually unchanged from one year earlier.

Outlook

Economic growth is expected to continue in 2013. Real GDP is expected to increase by 6.7% as higher oil production, combined with further growth in iron ore production and investment, contributes to high levels of economic output. Construction activity at Vale's nickel processing facility is expected to remain at high levels and the Hebron project will ramp up significantly with GBS construction underway and the commencement of topsides fabrication. Furthermore, development of the Muskrat Falls hydro-electric project is expected to accelerate.

Employment is expected to grow by 3.1%, leading to a 0.9 percentage point decline in the unemployment rate. Employment gains and wage growth are expected to lead to a 6.1% increase in personal income. Increased employment and income will boost consumer spending—retail sales are expected to grow by 3.7%. Population growth is expected to resume in 2013 as robust economic conditions result in a return to net in-migration.

Beyond 2013, economic activity is expected to remain at high levels, however growth in GDP will fluctuate depending on natural resource production and major project timelines. Nonetheless, employment and incomes are expected to continue to post gains and this will lead to further increases in retail sales. Solid economic conditions are expected to support continued in-migration and an increase in population.

Oil and Gas

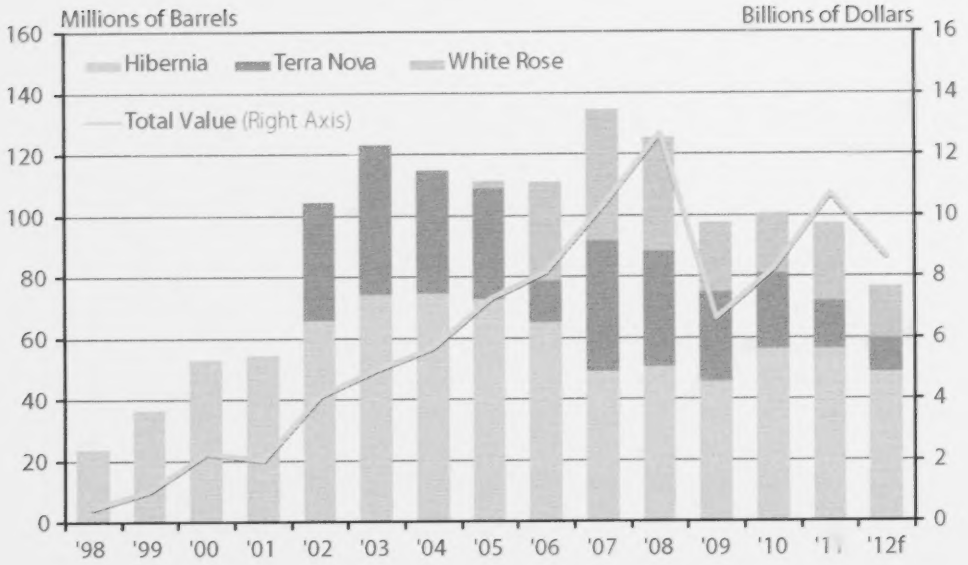
Oil Production

Since first oil flowed from the Hibernia project in 1997 the oil and gas industry has established itself as vital to the economy of Newfoundland and Labrador. Between 1997 and 2011 real GDP grew by 65.7%, averaging annual growth of 3.7%. It is estimated that nearly 50% of this growth was directly attributable to oil and gas production. The prominence of the oil and gas industry has been driven by large infusions of investment, representing over 25% of total capital expenditures in the province from 1997 to 2011. In 2011, oil production accounted for approximately 33% of the province's nominal GDP and 25.2% of investment.

Newfoundland and Labrador offshore oil production remains a key component of the Canadian industry, particularly as a major provider of lighter grade crude oil. From 1997 to 2011 the province's share of light and medium crude production in the country grew from 0.4% to 32.0%.

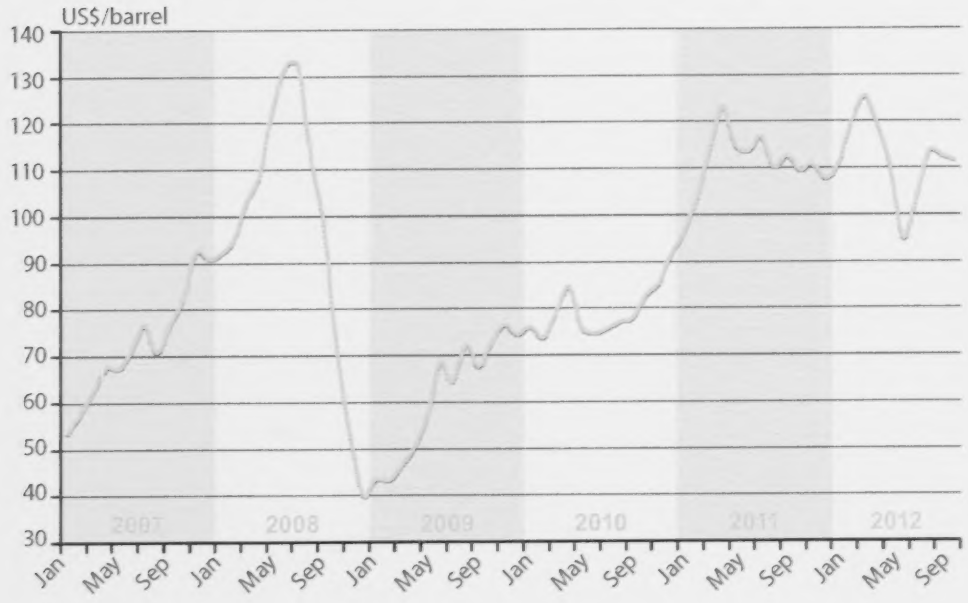
In 2012 oil production from the province's three producing projects is expected to decrease to 76.7 million barrels from 97.3 million in 2011 (see chart). This drop primarily reflects maintenance shutdowns at all three projects, but also natural production declines as all three projects are now beyond peak production. During the January to August period of this year, total oil production was 49.6 million barrels, representing a 23.9% (or a 15.6-million-barrel) decrease relative to the same period in 2011. Cumulative oil production since 1997 totalled 1.3 billion barrels (or 61.2% of estimated reserves at current producing projects), with an estimated value of $90.2 billion.

Offshore Oil Production



f: forecast
Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Natural Resources; Department of Finance

Brent Crude Oil Monthly Spot Prices



Source: U.S. Energy Information Administration

The value of oil production is expected to decrease 19.2% to $8.7 billion in 2012 as a result of lower production volumes. The price of Brent crude oil, a benchmark for Newfoundland and Labrador oil, is expected to average around US$112.30/barrel in 2012, compared to US$111.26/barrel in 2011 (see chart).

Hibernia

Hibernia, located in the Jeanne d'Arc Basin 315 kilometres (km) southeast of St. John's, was the first offshore oil project to be developed in Newfoundland and Labrador. Between November 1997, when first oil occurred, and August 31, 2012, Hibernia produced 812.6 million barrels of oil. The value of that production is estimated at $51.3 billion. With estimated reserves of 1.4 billion barrels (including Hibernia South Extension reserves), it is the largest offshore project in the province and the fifth largest oilfield ever discovered in Canada. Approximately 582 million barrels, or roughly 42% of total reserves are remaining as of August 31, 2012. Hibernia is operated by the Hibernia Management and Development Company Ltd.

Through the first eight months of 2012 production at the Hibernia gravity based structure (GBS) totalled 33.3 million barrels, down 12.2% (or 4.6 million barrels) from the same period last year. The decrease in production from 2011 can be attributed to natural declines and a month-long maintenance shutdown. Additionally, production from the Hibernia South Extension (HSE) Unit has been reduced pending completion of water injection wells to provide pressure support to that part of the field, and high water production in the AA Blocks has constrained production in that region.

The HSE Unit and AA Blocks are part of the larger Hibernia South Extension. First production from the AA Blocks was realized in 2009 and from the HSE Unit in 2011. The HSE Unit and AA Blocks have combined estimated recoverable reserves of 215 million barrels (including oil already extracted), which is anticipated to extend the life of the Hibernia project by five to 10 years. The province, through Nalcor Energy, has a 10% equity stake in the HSE Unit.

For 2012, production is expected to total 48.7 million barrels (of which 8.5 million barrels are anticipated to come from the AA Blocks and HSE Unit). This compares to 56.3 million barrels produced in 2011, representing a 13.5% decrease.

Terra Nova

The Terra Nova field was the second Newfoundland and Labrador offshore oil discovery to reach production, with first oil coming in January 2002. The field, just southeast of the Hibernia project, is operated by Suncor Energy Inc. using a floating production, storage and offloading vessel (*Terra Nova FPSO*). At 419 million barrels, it contains the second most estimated oil reserves (including already extracted oil) of the province's three currently producing projects.

The Terra Nova project produced 7.9 million barrels of oil during the first eight months of 2012, a decline of 2.8 million barrels (or 26.0%) over the same period in 2011. The production decline was due to an extended maintenance shutdown, which was originally estimated to require 21 weeks. The maintenance program included repairs in Marystown to the *Terra Nova FPSO*'s water injection swivel, offshore replacement of risers and flow lines to mitigate the impact of hydrogen sulphide (sour gas) and satellite drill centre development. The shutdown commenced in early June 2012 and production is expected to resume in November, with the *Terra Nova FPSO* having sailed from Marystown on October 6 and subsequently successfully reconnected to the subsea flow lines.

For the year as a whole, Terra Nova is projected to produce 11.3 million barrels of oil in 2012, which would represent a 27.9% (or a 4.4-million-barrel) decline from 2011. From January 2002 to August 31, 2012 cumulative production at Terra Nova was 335.1 million barrels, representing 80.0% of estimated reserves. Cumulative production value is estimated at approximately $22.5 billion.

White Rose (including North Amethyst)

The White Rose project, operated by Husky Energy Inc., is the province's most recent offshore oil development to be brought into production. First oil from the South Avalon Pool occurred in November 2005 via the *SeaRose FPSO*. There are a total of 373 million estimated barrels of recoverable oil in the White Rose project, including oil already extracted and reserves in the main reservoir and satellite North Amethyst, South White Rose Extension, West White Rose, North Avalon and Hibernia Formation pools. Between November 2005 and August 31, 2012 Husky had extracted 190.1 million barrels, or 51.0% of reserves. Cumulative production value is estimated at approximately $16.4 billion. The province, through Nalcor Energy, has a 5% equity stake in the White Rose satellite fields.

Through the first eight months of the year the White Rose project, including output from the North Amethyst field, had produced 8.4 million barrels, down 8.1 million barrels (or 49.3%) from the same period of 2011. The production decline was due to an extended maintenance shutdown in 2012. Production on the *SeaRose FPSO* ceased on May 4 in preparation for its trans-Atlantic crossing to Belfast, primarily for stern tube repairs. The vessel returned to the field July 12, four days ahead of schedule. Production resumed on August 13, 2012. Annual production for 2012 is expected to total 16.7 million barrels compared to 25.2 million barrels in 2011, a 33.7% decrease.

Husky continues to explore options for developing the White Rose Extension Project. A development plan amendment application has been filed with the C-NLOPB seeking approval to develop the South White Rose Extension and the Terrace region of the South Avalon pool via subsea tiebacks to the *SeaRose FPSO*. With respect to the West White Rose region, options under consideration are a concrete gravity structure

(CGS) wellhead platform (WHP) development or a subsea drill centre development. Husky has retained Arup Group Limited to carry out front end engineering and design associated with the WHP. The company filed a project description for both options with the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) at the end of May. The development options for the West White Rose region are currently undergoing environmental assessment.

The WHP, if selected and approved, would be similar to the Hibernia GBS but smaller, with topsides of about 20% of the tonnage at Hibernia. The WHP would be tied in to the *SeaRose FPSO*, which would continue to process all fluids at White Rose under both development options. Husky is exploring the option of the WHP as it is anticipated to improve drilling efficiency, lower both capital and operating costs and increase resource recovery. This may increase the economic viability of smaller satellite pools at White Rose. If pursued, the CGS would be constructed at Argentia, floated to deep waters in Placentia Bay for mating with the topsides and then towed to the White Rose project. Construction would be anticipated to begin in 2014 with first oil being produced in late 2016. A decision from Husky on the preferred development option for the West White Rose region has not been made but is expected before the end of 2012.

Hebron

The Hebron field, discovered in 1981, will be Newfoundland and Labrador's fourth stand alone offshore oil project. Development activities have been ongoing since 2008, when the province signed the final agreement with the Hebron consortium to develop the oilfield. First oil is expected in 2017. The Hebron field, located just to the northwest of the Terra Nova project in the Jeanne d'Arc Basin, is estimated to contain 707 million barrels of recoverable reserves, making it the second largest field after Hibernia. Like Hibernia, Hebron will be developed using a GBS, but on a smaller scale.

The province, through Nalcor Energy, purchased a 4.9% equity stake in the Hebron project at a cost of $110 million. It will pay a proportional share of project costs and receive a corresponding share of production. ExxonMobil Canada Properties (36%), Chevron Canada Limited (26.7%), Suncor Energy Inc. (22.7%) and Statoil Canada Ltd. (9.7%) make up the remaining Hebron consortium participants. ExxonMobil will act as the operator for the project.

On April 15, 2011 ExxonMobil, on behalf of the Hebron consortium, submitted the Hebron Development Plan, including the Benefits Plan and revised Environmental Comprehensive Study Report, to the C-NLOPB. Following a completeness review by the Board, the development plan was referred to a public review commissioner which delivered a recommendation to sanction the project on February 28, 2012. The C-NLOPB approved the development plan application for the project on April 27, 2012, which was ratified by both the provincial and federal governments by May 31, 2012. Hebron partners are expected to officially sanction the $8.3 billion project towards the end of the year.

Site preparation at Bull Arm, where the GBS will be constructed, began this year, with dry dock dewatering completed in July. October 2012 marked the official start of GBS construction with the installation of the steel skirts at Bull Arm.

Topsides construction is expected to start in 2013. Two of the four topsides modules will be built in the province—the accommodations module will be constructed at Bull Arm and the drilling support module will be fabricated in Marystown. A third module, the drilling equipment set, was originally slated to be constructed in Newfoundland and Labrador but will now be fabricated outside the province. The project proponents will pay the province $150 million in compensation for moving this work outside the province. The fourth module, the utilities/processing module, will also be built outside the province.

As of September 30, 2012, there were 1,112 people working on the Hebron project in Newfoundland and Labrador. Approximately 780 of those people are Newfoundlanders and Labradorians.

Exploration

Offshore

Statoil made a significant announcement in June 2012 when it revealed that its drilling activities had uncovered 100 to 200 million barrels of recoverable oil reserves in the Mizzen field. Mizzen is located in the Flemish Pass, northeast of the province's current offshore projects in the Jeanne d'Arc Basin, and is 500 km northeast of St. John's. Mizzen was drilled in water depths up to 1,100 metres, a thousand metres deeper than the average water depth at the province's three existing projects. Statoil's Flemish Pass activities in 2012 included acquiring 5,773 square kilometres (km^2) of 3D seismic survey data. The company also has plans for future exploration in the region, including drilling two wells there with the semi-submersible drill rig *West Aquarius* in 2012-13. Statoil has also been active in the Jeanne d'Arc Basin, having acquired 192 line km of 2D seismic survey data in 2012 and is planning to use *West Aquarius* to drill a well in 2013.

Exploration activities by other companies also continue, both in the Jeanne d'Arc Basin and elsewhere offshore. In the Jeanne d'Arc Basin seven well site surveys were completed in 2012 and Husky spudded a well, but had to suspend operations after an incident on the drill rig *Henry Goodrich*. Chevron, meanwhile, has plans to drill a third well in the deep water Orphan Basin in 2013, using the drill ship *Stena Carron*.

Seismic exploration activity remains substantial in the offshore area. In addition to Statoil's seismic survey data acquisition in 2012, Multi Klient Invest (MKI) carried out extensive 2D seismic exploration off the coast of Labrador and northeast Newfoundland. MKI acquired 11,573 line km of 2D seismic survey data off Labrador and 7,957 line km northeast of Newfoundland. The company plans to continue with seismic exploration northeast of the Island in 2013.

On the west coast the C-NLOPB is working to update the Western Newfoundland Strategic Environmental Assessment (WNSEA). The formal public consultation process is complete, including with stakeholders in neighbouring provinces bordering the Gulf of St. Lawrence. Feedback from those consultations will be included in the WNSEA update, which is expected in 2013.

The C-NLOPB has put on hold the independent review of Corridor Resources Inc.'s proposed exploration drilling program of the Old Harry reservoir off the coast of western Newfoundland until the WNSEA is completed. A section of the Old Harry prospect, located in the northeastern part of the Gulf of St. Lawrence, lies within waters under the administrative jurisdiction of the C-NLOPB and will be included in the WNSEA update. The remainder of the Old Harry prospect is in an area where a joint agreement between Newfoundland and Labrador and Quebec has yet to be established. Originally discovered by Texaco in the 1970s, Halifax-based Corridor Resources has held the licence to the Old Harry prospect since 1996.

Shoal Point Energy Ltd. also continues to be active on the west coast. The company sought, and received, a 120-day suspension of its onshore-to-offshore exploration well Shoal Point 3K-39Z from the C-NLOPB on July 17, 2012. This suspension was necessary to allow finalization of plans for sidetrack and stimulation activity and seek appropriate regulatory approval. Shoal Point Energy is also planning further onshore-to-offshore exploration wells in the Green Point shale formation that stretches up the west coast of the Island.

In terms of new offshore areas available to industry for exploration and development, the C-NLOPB announced the winning bids for the 2012 licence auction on November 2, 2012. The areas that were up for bid comprise 1,589,238 hectares over six parcels in the Laurentian Basin, to the south of Newfoundland, and 208,899 hectares over one parcel in the Flemish Pass. Shell Canada Limited made five successful bids for $97.0 million in work commitments in the Laurentian Basin. The sixth parcel received no bids. In the Flemish Pass, a consortium of Husky (40% working interest), Suncor (35%) and Repsol E & P Canada Ltd. (25%) made a successful bid of $19.9 million in work commitments for the lone parcel.

Onshore

Vulcan Minerals Inc. had a 50% working interest in the approximately 100,000 hectares of onshore Bay St. George petroleum rights in western Newfoundland. However, on May 10, 2012 the company announced that it converted this interest into a 2% royalty in a deal with Investcan Energy Corporation, which has taken over the project as operator. Investcan has received approval to drill the first of a planned four-well appraisal project in the Flat Bay area.

Mining

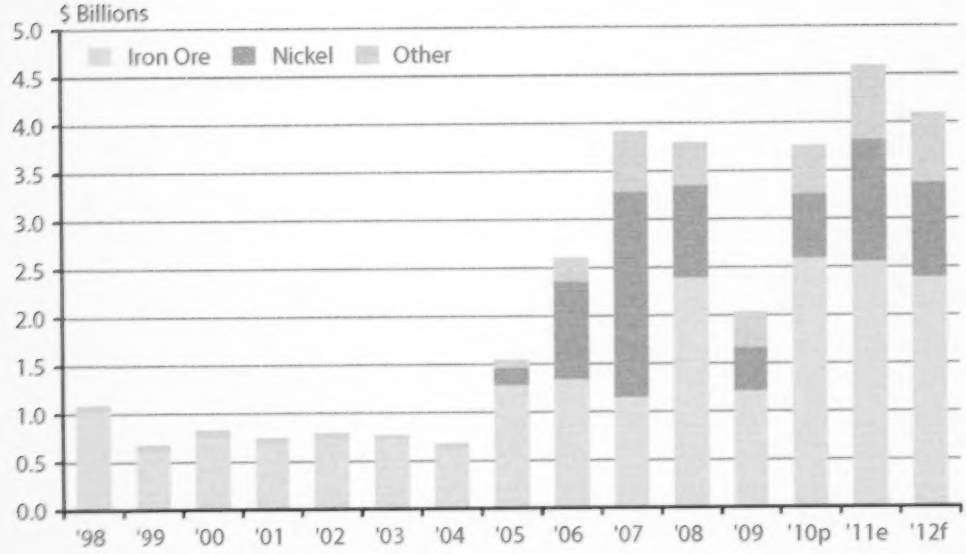
The provincial mining industry performed well in 2012 despite challenging market conditions. Prices for iron ore and nickel trended down throughout the year due to subdued demand from developing countries, especially China. Nonetheless, prices remained high from a historical perspective, development of new projects advanced and mineral exploration increased.

The value of mineral shipments is expected to total about $4.1 billion in 2012 (see chart). If realized, this would represent a decrease of about 11% from 2011, reflecting mainly lower prices for many minerals, particularly iron ore, but also lower production of nickel. Although down from last year, the value of mineral shipments remains historically high. Exploration expenditures are expected to increase over 24%—mainly the result of various iron ore and gold projects. Total mining-related employment (including employment associated with construction and development activities at Vale's nickel processing facility) is expected to be almost 8,000 person years—the highest level on record.

Market Conditions

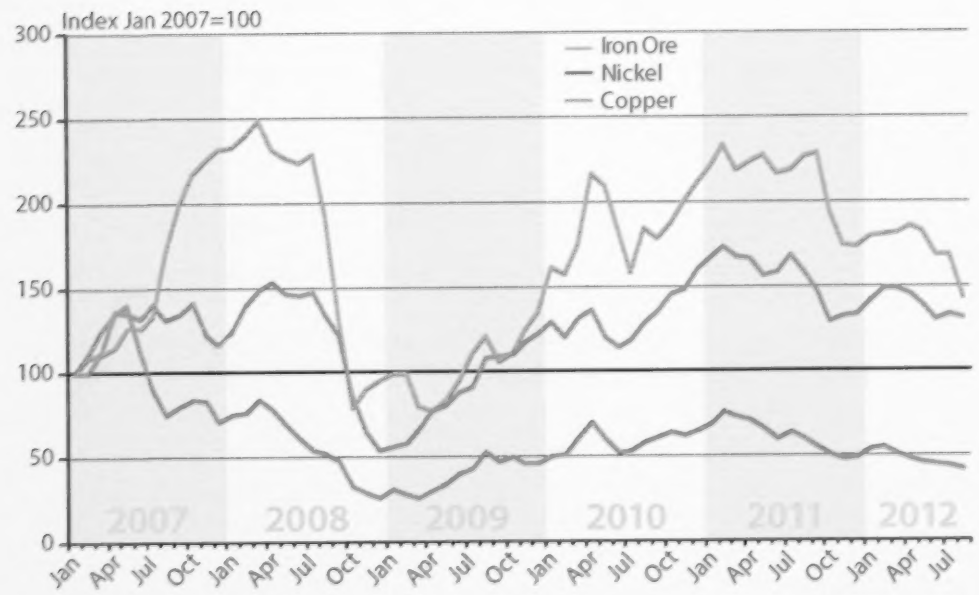
Demand for minerals was strong throughout much of 2011, however prices for some minerals—particularly iron ore and nickel—began to decline in late 2011. This trend has continued throughout 2012 primarily as a result of slowing economic growth in China and India. Average iron ore spot prices for the first three quarters of 2012 are about 25% lower than the same period in 2011 (see chart). Nickel prices decreased by more than 25% and copper prices fell almost 15% in the first three quarters of 2012, compared to the same period last year. Prices averaged US$7.81/pound for nickel and US$3.66/pound for copper in September 2012.

Value of Mineral Shipments



p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources; Natural Resources Canada

Mineral Price Indices



Note: Iron ore prices are from AME Group up to January 2012; prices from January 2012 to present are average weekly prices from MetalPrices.com
Source: London Metal Exchange, The AME Group, MetalPrices.com

Iron Ore

Total iron ore shipments are expected to be about 21 million tonnes in 2012, an increase of 23% relative to 2011. The anticipated rise is due to higher production at all iron ore mines. However, the value of shipments is expected to fall about 6% because of lower iron ore prices.

Iron Ore Company of Canada

Total shipments from IOC are expected to increase from about 13 million tonnes in 2011 to about 15 million tonnes in 2012 as a result of the implementation of Phase 1 of its Concentrate Expansion Project (CEP). Commissioning of Phase 1, which includes a new crusher and conveyor at the Luce pit, began in the first quarter and was operational as of August 2012. CEP 1 increased the iron concentrate production capacity at IOC from 18 million tonnes per year to 22 million tonnes per year. These improvements should enable higher production levels in the second half of 2012. CEP 2 is intended to expand capacity from 22 to 23.3 million tonnes and is expected to begin commissioning in the first quarter of 2013. A third phase of the CEP that would increase production to 26 million tonnes is currently under consideration.

IOC is also investigating an additional expansion plan (Strategic Development Plan) that would increase production to 50 million tonnes annually. This entails a staged expansion involving investment in the company's mines, plants, railways and ports. The company completed an order of magnitude study and the engineering selection process has begun.

Wabush Mines

Iron ore production at Wabush Mines is expected to increase to about 3.5 million tonnes in 2012 from 3.1 million tonnes in 2011. Operational challenges surrounding high manganese content in Wabush Mines' ore are being addressed with the installation of separation circuits to reduce manganese to a level acceptable by steel plants. Two of these circuits are installed; the complete project would require about six circuits and could help extend the mine life to about 2030. The mine currently employs about 500 people.

Labrador Iron Mines Ltd.

Labrador Iron Mines Ltd. (LIM) began operations in April 2011 and shipped its first iron ore to China the following October. The company is the first new iron ore producer in the province since 1965 when Wabush Mines started producing.

The company mines and processes lump and sinter iron ore in northwestern Labrador. From January 1 to October 2, 2012 the project sold 1.35 million wet tonnes of product.

It was expected that 2 million tonnes would be produced in 2012, however due to market conditions the company now expects production to be 1.7 million tonnes.

The company has also focused on cost reduction and cash conservation measures in response to current market conditions. The capital expenditures budget of $112 million in 2012 has been adjusted and about $52 million has been deferred to 2013. Commissioning of the Silver Yards plant Phase 3 and construction activities at the Houston deposit (which has the potential to more than double current production) are now planned for 2013. Exploration expenditures have also been reduced from $8.6 million to $5.0 million.

Infrastructure Developments

Expansion of the iron ore industry has created greater demand for transportation infrastructure. Several iron ore companies are participating in the development of a new multi-user dock located in the Bay of Sept-Îles at Pointe Noire, Quebec. The companies include LIM, Alderon, Tata Steel Minerals Canada Ltd. (TSMC) and Champion Minerals. The dock is designed to have a total capacity of 50 million tonnes annually and is expected to cost $220 million. Financing is also being provided by the Port of Sept-Îles and the Government of Canada. The facility is expected to be completed in the first quarter of 2014.

Canadian National Railway recently secured the support of a number of mining companies for a feasibility study into a proposed rail line in the Quebec/Labrador region. The companies include LIM, Cliff Natural Resources, New Millennium Iron Corp., Cap-Ex Ventures and Alderon Iron Ore Corp. This proposed multi-user rail line is expected to include a fully operational and continuous railroad network, as well as a multi-user material handling facility located at the Port of Sept-Îles.

Voisey's Bay

Production at Vale Newfoundland and Labrador's (VNL) operations at Voisey's Bay, Labrador is expected to decrease in 2012. For the first three quarters of this year, production of nickel, copper and cobalt was about 72,000 tonnes—down 17% from the same period in 2011. The company plans to ship over $1.3 billion of metal concentrates in 2012, down about 22% compared to 2011 due mainly to lower nickel production and prices.

The construction of VNL's US$3.6 billion nickel processing facility in Long Harbour continues with finalizing concrete placement, equipment setting and building cladding, with a target to have all buildings enclosed by December 2012. Budgeted capital expenditures for 2012 are estimated at US$1.2 billion. The overall project was 65% complete as of October 2012 with about 4,000 people working at the site. In October 2012, Vale announced a revised schedule, whereby first nickel would be produced

from imported nickel matte in 2013 using part of the plant. Construction will continue on other parts of the plant while commissioning and operations are underway, with a target of accepting concentrate from Voisey's Bay in late 2013 or early 2014. Once fully operational the facility will produce 50,000 tonnes of finished nickel per year and employ approximately 475 people annually.

Other Mines

Rambler Metals and Mining Canada Ltd. (RMM) mines and processes ore from its copper-gold Ming Mine on the Baie Verte Peninsula. A new copper mill built adjacent to the existing gold mill at the Nugget Pond site has been in the commissioning phase since late 2011. By the end of 2012 the company expects to make an initial shipment of between 9,000 and 10,000 metric tonnes of copper concentrate. The company officially announced commercial production effective November 2012. Employment at the site is currently about 150 person years. The project is expected to process about 630 tonnes of ore per day and have a mine life of six years. A preliminary economic assessment prepared by the company confirmed that a large copper resource exists in the Lower Footwell Zone of the mine which could extend the operation.

Anaconda Mining Inc. began gold production in 2008 at its Pine Cove mine near Baie Verte. The company has overcome significant problems in initial mill functioning and is expected to produce over 15,000 ounces of gold per year. Employment at the project is approximately 66 person years annually and expected mine life is about seven years.

The Teck Duck Pond copper-zinc mine is located in central Newfoundland. For the first three quarters of 2012, copper and zinc production were 10,600 tonnes and 15,300 tonnes, respectively. This compares with copper and zinc production of 9,900 tonnes and 16,400 tonnes in the same period of 2011. The operation employs approximately 330 people annually. Teck Duck Pond operations are currently scheduled to end mining in the first quarter of 2015, however, the ongoing exploration program may extend the mine life.

There are other mines in the province such as Atlantic Minerals (limestone/dolomite), Hi-Point Industries (peat) and Newfoundland Pyrophyllite (pyrophyllite), which produce a variety of mineral products. Some of these operations were adversely affected by weak global growth in 2012.

New Developments

Mineral development activity continued to be robust in Newfoundland and Labrador in 2012, despite challenging mineral markets.

TSMC's Elross Lake project is a joint-venture owned by Tata Steel of India and New Millennium Iron Corp. TSMC is developing a direct shipping iron ore deposit in

northwestern Labrador/northeastern Quebec. Development plans are presently being reviewed by the Department of Natural Resources. While the review is ongoing, the company requested and obtained an expedited approval to permit TSMC to begin mining from one of its pits, which contains ore of direct shipping quality. On September 12, 2012 the company announced that it had started initial mining of saleable iron ore and is stockpiling the product at its Timmins plant site for crushing and screening. Most of the necessary agreements are in place and development and construction activities are continuing. Estimated production targets are four million tonnes per year by the fourth quarter of 2013, increasing to six million tonnes per year in 2015 (with some ore being mined in Quebec). The project is expected to employ 188 people once fully operational. Tata Steel and New Millennium are also undertaking a $50 million feasibility study for several large taconite (low grade iron content) deposits in the same area.

Alderon is advancing the Kamistiatusset (Kami) iron ore project located in western Labrador near Labrador City and Wabush. The resource is contained within three zones (Rose Central, North Rose and Mills Lake). At present time the main focus of the project is the Rose Central zone, which comprises about 40% of total measured and indicated resources. In September 2012 the company submitted an Environmental Impact Statement (EIS). Production is initially estimated at about eight million tonnes per year, however, the EIS contains plans to possibly double that production to 16 million tonnes per year. A feasibility study is currently underway and is expected to be completed in the fourth quarter of 2012. The capital cost of the project is estimated at $1.5 billion. Construction is expected to begin in late 2013 or early 2014 and operational employment at the mine and concentrator is estimated at 480 people.

Newspar continues efforts to reactivate the underground fluorspar mine located at St. Lawrence on the Burin Peninsula. The company is an equal partnership between Canada Fluorspar Inc. (CFI) and Arkema (a multinational French chemical company). Newspar plans to develop two deposits, complete upgrades to the existing mill, and construct a tailings management facility and new marine terminal. The company performed a review of the project in order to establish a more precise understanding of its costs and scope. CFI expects this comprehensive review to be completed in the fourth quarter of 2012 or first quarter of 2013. The operation is expected to create about 150 jobs during production.

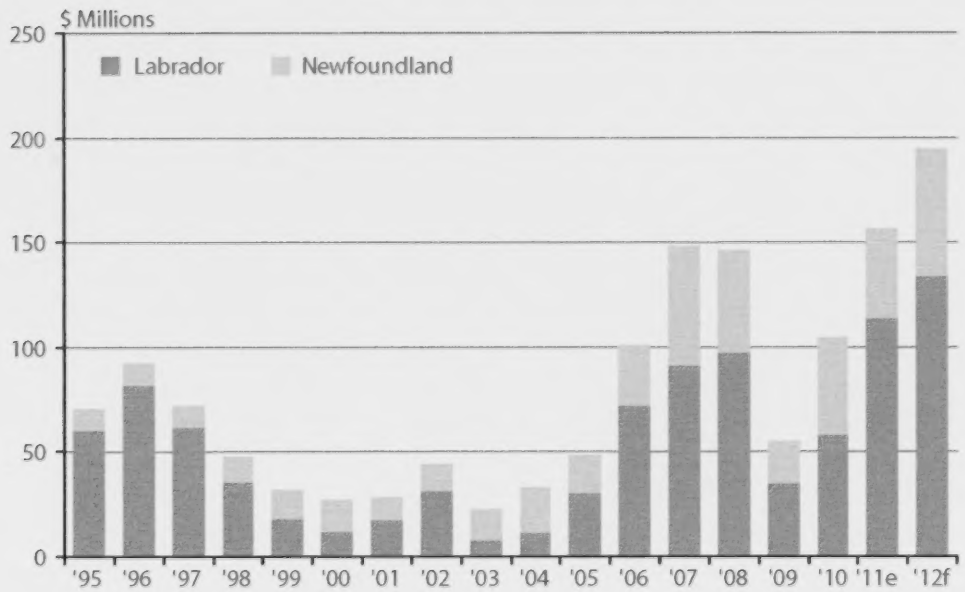
Labec Century Iron Ore Inc. (Labec) registered the Joyce Lake iron ore property for environmental assessment in October 2012. The Joyce Lake property is part of the larger Attikamagen project that straddles the Newfoundland and Labrador / Quebec border about 20 km northeast of Schefferville. The project could produce up to four million tonnes of direct shipping iron ore over a mine life of about six years with production beginning in 2015. About 75 construction jobs and up to 265 operating positions could be created.

Exploration

Exploration expenditures are forecast to reach about $195 million in 2012, up from the $157 million recorded in 2011 and the highest ever recorded (see chart). The major commodities of interest are iron ore, copper and gold. Prices for iron ore and copper weakened in 2012, although they are still high in an historical context. Iron ore exploration is forecast at an all-time high of $90 million, representing about 50% of all exploration expenditures for the province in 2012. There was also renewed interest in uranium—expenditures for this commodity are projected to be roughly $15 million in 2012. In March 2012, the Nunatsiavut Government officially lifted a three-year moratorium on uranium mining on Labrador Inuit Lands, which should bode well for future exploration.

In October 2012, the Provincial Government announced a Call for Expressions of Interest to seek proposals for the development of the Julienne Lake iron ore deposit in western Labrador. The deposit is designated as an "exempt mineral land", meaning that mining rights are reserved for the Crown. The province conducted a $2.6 million exploration program on the deposit over the last few years. The results of the exploration define a world-class resource consisting of over one billion tonnes of iron ore at better than 33% iron content, which should make the project attractive to companies in the global mining community.

Mineral Exploration Expenditures



e: estimate; f: forecast
Source: Department of Natural Resources

Forestry and Agrifoods

Forestry

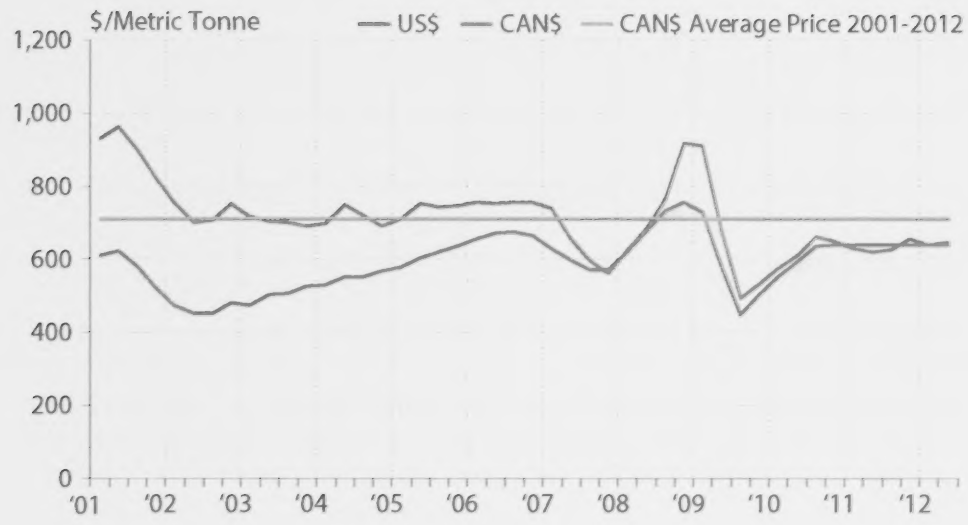
Newsprint—North America

Market challenges persisted for the North American newsprint industry through 2012. Exports, which have become increasingly important to North American producers, were down 25% during the first eight months compared to the same period last year, reflecting declining demand from Asia, Latin America and Africa. Domestic demand was relatively stable over the same period, falling only 1.2%.

Overall, North American newsprint shipments were down 9% and production declined by 9.4% through to July 2012, relative to the same period in 2011. Canadian producers absorbed the bulk of these production declines. The North American industry has struggled for some time, with demand falling by more than 50% in less than a decade. The industry has strived to keep prices stable through capacity reductions.

Newsprint prices remained relatively stable through the second quarter of 2012 at around US$640/tonne (see chart). This price has been maintained since the third quarter of 2010 and is expected to remain through the fourth quarter of 2012. A strong Canadian dollar over this period has diminished much of the advantage once experienced by producers in this country.

Newsprint Prices



Note: Quarterly prices
Source: TD Bank Financial Group; Bank of Canada; Department of Finance

Newsprint—Province

The newsprint industry in Newfoundland and Labrador has not emerged unscathed by the challenges facing the North American industry. Corner Brook Pulp and Paper Limited (CBPP), a subsidiary of Kruger Industrial, operates the only remaining newsprint facility, following the closure of two AbitibiBowater mills several years ago. The CBPP mill is also facing continued market pressures.

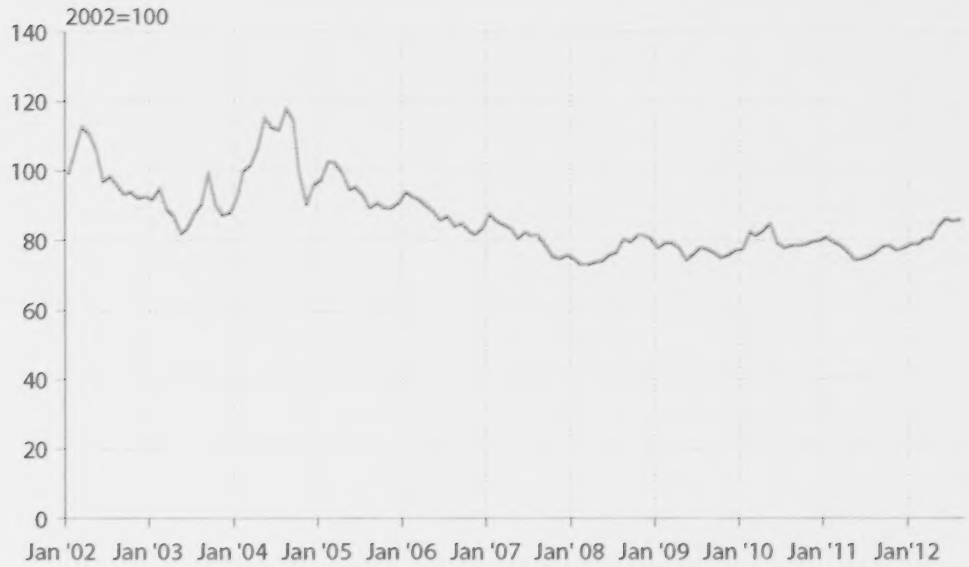
Kruger has been assessing the viability of the Corner Brook mill in conjunction with the implementation of cost-cutting measures. Recently, the company negotiated new labour agreements with the majority of the union locals at the mill. Discussions with other workers are ongoing. The company also recently obtained approval from pension plan members for changes to the plan to provide the company with funding relief. The company will continue to address issues related to operating costs and develop a sustainability plan to ensure the long-term viability of the mill.

Provincial paper product shipments (newsprint and directory paper) totalled 175,387 tonnes during the first nine months of 2012, down 3.2% from the same period in the previous year. The decline reflected lower shipments of directory paper which more than offset an increase in newsprint shipments. The company shipped very little directory paper in 2012 compared with over 7,800 tonnes during the first nine months of 2011. Newsprint shipments increased by 0.8% during the first nine months of this year compared with the same period in 2011. This slight increase reflects, in part, less downtime due to maintenance.

Lumber and Wood Pellets

The North American lumber industry has struggled in recent years due to a weak U.S. housing market, its single biggest market. Recently, however, housing starts in the U.S. have begun to rebound. In the first 10 months of 2012 the country registered 658,100 new starts, a 28.3% increase above the same period in 2011. Consequently, North American lumber prices have rallied through the first eight months of 2012 (see chart).

Lumber Price Index



Source: Statistics Canada

Lumber prices are expected to increase throughout the remainder of 2012 and 2013, brought on by limited timber supply, reduced sawmill capacity and increasing demand. Demand will be bolstered by continued recovery in the U.S. housing market.

High transportation costs associated with bringing lumber onto the Island gives domestic producers a competitive advantage in the province. As a result, the local housing market, which has been strong in 2012, has become a preferred market for lumber producers in Newfoundland and Labrador. Additionally, recent agreements reached with the local newsprint industry indicate that demand for sawmill residue should remain stable. In light of this, provincial lumber production is projected to be 83 million board feet in 2012, up 2.2% from 2011.

The industry continues to invest in upgrades and investigate ways to improve cash flow. A recent investment in a biomass dryer by Sexton Lumber in Bloomfield has resulted in the

company supplying dry bark to CBPP for use in its co-generation plant. Similarly, Burton's Cove Logging and Lumber Limited has recently upgraded its sawmill in Hampden.

Two wood pellet producers are currently operating in the province: Cottle's Island Lumber Co. Ltd. in Summerford and Exploits Pelletizing in Bishop's Falls. Annual production from these facilities is about 3,000 to 4,500 tonnes. Wood pellets are used in modern wood stoves for residential heating.

Agrifoods

Farm Cash Receipts

Farm receipts for provincial farmers totalled $104.8 million during the first three quarters of 2012, up 13.1% from the same period in 2011. Livestock and livestock products, which accounted for 86.3% of total receipts during this period, were up by 14.0% to $90.4 million. This increase was mainly driven by higher sales of fur and dairy products. Fur production receipts increased by 63.3% to $18.9 million while dairy product receipts rose 5.2% to $34.5 million. Although farm receipts for chicken production are no longer published, data from the Chicken Farmers of Canada indicates that the volume of chicken produced in the province in 2012 totalled 10.4 million kilograms through September, a 2.3% increase from the same period of 2011. Crop production receipts, overall, increased from $13.0 million to $13.3 million, a gain of 2.1%. The bulk of this gain was due to higher receipts for floriculture, nursery and sod producers.

Seed Potato Program

In 2011 the province's agriculture industry produced about nine million pounds of potatoes with a farm value of about $2 million. The Seed Potato Program, a joint effort between farmers and the Provincial Government, plays an important role in the production of potatoes in the industry. The program, initiated in 1973, was established to identify strains of potato that are resistant to potato wart and potato cyst nematode. These diseases reduce yields and make potatoes unmarketable.

Seed potato refers to a potato that is certified as disease-free and suitable for planting for commercial production. The province, through the Glenwood Seed Potato Farm, produces nine varieties of seed potatoes. These seed potatoes are supplied to seven producers which grow potatoes for consumption as well as seed production.

Growing Forward Agriculture Innovation Program

The Growing Forward Innovation Program is designed to increase technological innovation in the provincial agriculture and agrifoods sector. The program is designed to encourage producers to incorporate new technologies into their operations and to

focus on meeting industry objectives through the adoption of technologies not well established in the province. To date, the innovation program has funded 119 projects at a cost of $6.4 million. Some of the benefactors of this program are highlighted below. The current Growing Forward Program Agreement expires March 31, 2013. However, Federal, Provincial and Territorial Ministers of Agriculture have reached an agreement on the content of a five-year Growing Forward 2 policy framework, which will come into effect April 1, 2013.

Agrifoods Innovation Fund

Proponent	Fiscal Year	Project
Organic Farm	2012-13	**Alternative Energy System - Geothermal Heat Pumps** Project involves the establishment of a greenhouse system which is heated using geothermal heat pumps. The heat pumps provide a gentle warming in spring and fall and naturally cool the greenhouse in summer providing ideal conditions to produce a wide variety of vegetables and herbs. (Portugal Cove)
Bickerstaffe Farms & Nurseries Ltd. and Woodland Nurseries Ltd.	2011-12	**Alternative Energy System - Biomass Boiler System** Funding has allowed these two operations to replace oil furnace systems with biomass boiler systems that are significantly more efficient and cost-effective. (Portugal Cove)
Hamer Farm Ltd.	2011-12	**Innovation - Feeding System** This automated feeding system is used for an egg production facility to maximize feeding efficiencies, reduce waste and identify potential problems quickly. (Grand Falls-Windsor – Wooddale)
Patey's Farm	2012-13	**Greenhouse Hydroponic System** Project involves the commercial production of lettuce using greenhouse hydroponics and is particularly relevant for Labrador as current commercial agriculture production is limited. (Happy Valley-Goose Bay)
Glenview Farm	2011-12	**Research study on solid and liquid manure management** Project explored separating manure solids from liquid manure using industrial filter presses and composting it to produce humus. This would allow the operation to treat all liquid manure produced on the farm, producing humus that is significantly more effective and environmentally friendly than liquid manure for crop production. (St. John's)
Pinedale Farms	2010-11	**Sod Production System** Project includes a sod harvesting system that automates the majority of the sod harvesting operation allowing better use of labour and improving the efficiency of sod harvesting capabilities. The faster harvest significantly reduces waste sod and improves quality ensuring customers a better product. (Terra Nova)
Larch Grove Farm Ltd.	2010-11	**IQ Milkers** This project involves the introduction of a dairy production system that allows for the identification and prevention of milk contaminates during the milking process. These production systems are currently being adopted by dairy operations to ensure milk production is safe and efficient. (Cormack)
O'Neill's Gardenland Ltd.	2009-10	**Innovative Technology - Greenhouse** This greenhouse technology incorporates a number of newer technologies including the use of newer tempered glass equipped with automated drip irrigation and interior/exterior monitoring systems that measure wind, humidity, temperature and daylight and is used to provide an optimal growing environment with minimal inputs. (Spaniard's Bay)

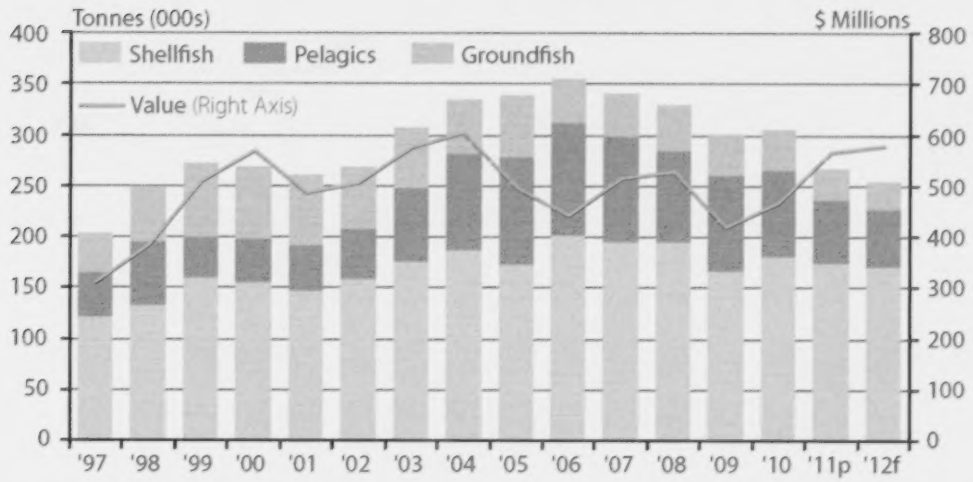
Fishery

The value of landings from the Newfoundland and Labrador fishery are anticipated to rise for the third straight year in 2012, as the result of increases in the raw material prices of several species, particularly shrimp. Landed value is expected to increase to $580 million, up 2.1% from the previous year. It is estimated that the volume of fish landings will decline to about 255,100 tonnes in 2012, down approximately 4.8% compared to 2011 (see chart). The decline in landings is mainly the result of lower pelagics and groundfish landings, particularly lower catches of herring, mackerel and yellowtail flounder, but also due to reductions in snow crab catches.

Aquaculture production continued to increase in 2012. Prices for aquaculture shellfish were stable while salmon prices were down from historic highs in 2011.

The number of people employed in the fishery is expected to be down in 2012 because of fewer processing workers. The number of processing workers decreased by approximately 7% to around 9,200 workers, compared to just over 9,900 in 2011. This reflects, in part, the permanent closure of several processing facilities that operated in 2011. There were approximately 9,850 registered harvesters in the province as of late October. It is anticipated that the final count of the number of people involved in harvesting will remain on par with last year at approximately 10,800.

Volume and Value of Fish Landings



p: preliminary; f: forecast
Source: Fisheries and Oceans Canada; Department of Fisheries and Aquaculture

Harvesting

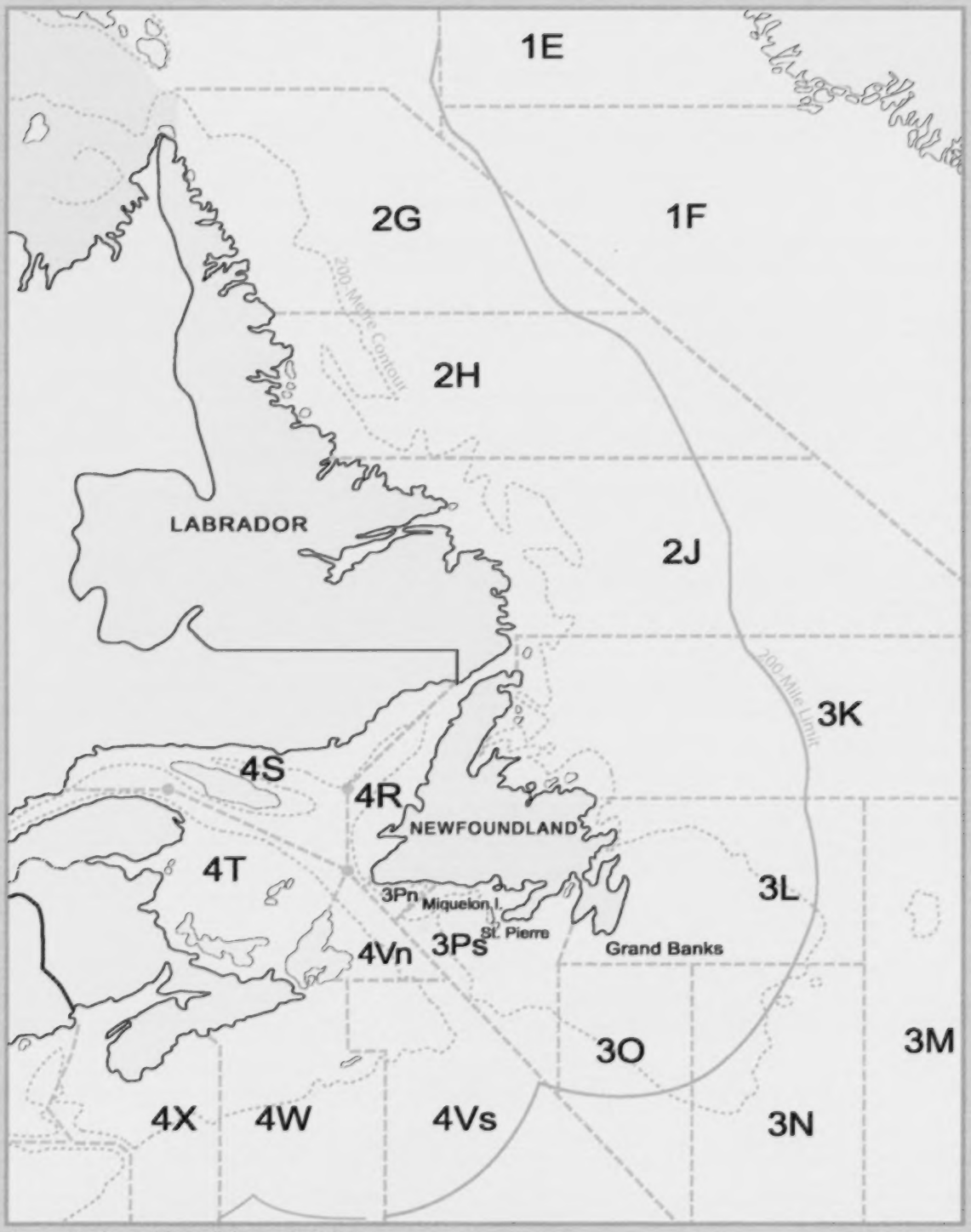
Shellfish

Total fish landings continue to be dominated by shellfish, and are forecasted to account for 67% of volume and 83% of value in 2012. Shellfish landings are expected to decline 0.8% to about 171,100 tonnes in 2012, down from 173,800 tonnes in 2011. The decline largely reflects lower snow crab landings which offset higher shrimp catches. The corresponding landed value is expected to rise by a modest 0.8% to about $481 million.

Snow crab landings are expected to drop slightly (down 4.6%) to 50,500 tonnes in 2012. This projected decrease is the result of quota cuts in NAFO Divisions 3K and 2J (see map). The landed value for snow crab is expected to fall 13.5% to just over $217 million in 2012, reflecting lower landings and slightly lower raw material prices. The minimum landed price paid to harvesters was $1.95/pound in 2012, down from $2.15/pound in 2011. However, the minimum price remained relatively high compared to the previous five year average (2007-2011) of $1.61/pound.

Shrimp landings are projected to increase to 88,300 tonnes in 2012, up 1.7% from 2011 as higher inshore and gulf landings are expected to more than offset lower harvests in the offshore fishery. Inshore shrimp landings rose 6.1% (or 2,658 tonnes) in the January to October period due to a quota increase in Shrimp Fishing Area (SFA) 6. Offshore shrimp landings decreased 8.6% (or 2,606 tonnes) over the same period

FISHERIES MANAGEMENT DIVISIONS



Source: Northwest Atlantic Fisheries Organization

because of lower catches in the winter 2012 fishery. The overall corresponding landed value of shrimp is expected to rise for the third straight year, up 15.3% to approximately $193 million. The raw material price paid to harvesters for inshore shrimp was $0.76/pound in 2012, up from $0.73/pound in 2011, and significantly higher than the previous three year average of $0.54/pound.

Groundfish

Groundfish landings for 2012 are forecast to be around 27,300 tonnes, down 13.8% from 2011, mainly the result of lower landings of yellowtail flounder. Yellowtail flounder landings during the January to October period dropped from 3,950 tonnes in 2011 to 1,394 tonnes in 2012, the result of decreased fishing effort. Cod landings were down 19.8% (or 1,660 tonnes) to 6,720 tonnes due to a quota cut in NAFO Division 4R and lower catches in the winter fishery in NAFO Division 3Ps.

Despite the lower landings, the landed value of groundfish is expected to increase 13.5% to about $80 million in 2012 due to higher prices for many groundfish species.

Pelagics

Pelagic landings are expected to decrease 9.2% in 2012, to 56,700 tonnes reflecting lower herring and mackerel catches. Herring landings were down 20.4% to 10,028 tonnes during the January to October period due to decreased catches from NAFO Division 4R. Higher capelin landings helped offset some of the decline in other pelagics – capelin landings rose by 3.4% (or 1,031 tonnes) to 31,118 tonnes during the period. The overall landed value of pelagics, however, is forecast to increase 46.2% to approximately $18 million in 2012. This gain can be attributed to an increase in raw material prices, in particular capelin.

Seals

The number of seals harvested in 2012 increased by 78.5% to 67,557 animals. There was an increase in harvesting effort this year after a very difficult season in 2011 stemming from poor ice conditions and unfavourable markets.

Processing and Marketing

Seafood production during the January to September 2012 period totalled approximately 115,000 tonnes, down 5.7% from the same period in 2011. At that time there were 101 active seafood facilities in the province, down from 103 in 2011. Of these, 87 were primary processing facilities (including aquaculture). The remaining 14 were involved in either secondary processing or retail (i.e. retail businesses with a license to process fish for the local market only).

Prices for 150-250 Count Coldwater Shrimp and 5-8 Ounce Frozen Snow Crab Sections, United States

Note: Price data were not available from Urner Barry Publications for several months. These data were estimated by the Department of Finance.
Source: Urner Barry Publications Inc.; Department of Fisheries and Aquaculture

The United States and China remain the largest international markets for the province's seafood products, accounting for 36.5% and 28.0% of exports by value respectively during the first eight months of this year. Other major markets include the United Kingdom (6.5%), Russia (6.0%), Denmark (4.7%) and Japan (3.4%). From January to August of this year, the province exported approximately 102,580 tonnes of seafood products, valued at approximately $615 million. Both volume and value declined when compared to the same period last year, down 13.5% and 10.7% respectively.

Demand for snow crab continued to be fairly strong in 2012. While market prices for snow crab are lower than the 14-year high reached in 2011, they remain strong on a historical basis (see chart). The January to November average for 5-8 oz. sections was US$4.92/pound, down 14% from US$5.73/pound for the same period of 2011. Newfoundland and Labrador's largest export market for snow crab is the United States, accounting for 54% of total snow crab export value. China was the second largest importer with 38% of export value. Newfoundland and Labrador snow crab is currently in assessment for Marine Stewardship Council certification. This certification is important for key markets which are increasingly focused on sustainability and eco-labelling.

Market prices for cooked and peeled shrimp remained steady to November 2012 (see chart). The market price for 150/250 count was US$5.30/pound in November and

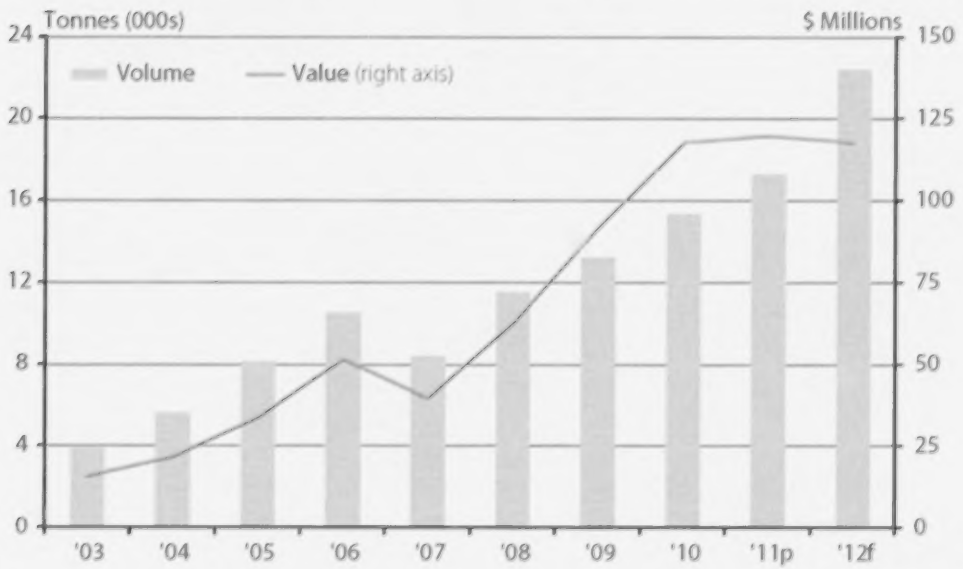
has been at that price since September 2011. The market price for 250/350 count was US$4.80 per pound in November and has been at that price since May 2012. There may be some downward pressure on prices later this year due to competition from warm water shrimp and the weakness in the European economies.

Newfoundland and Labrador producers continued to avail of the Autonomous Tariff Rate Quota (ATRQ) for cooked and peeled shrimp in 2012. Under the ATRQ there is no tariff on the first 20,000 tonnes entering the EU. The ATRQ for 2013 to 2015 period is currently being negotiated.

Aquaculture

Total aquaculture production is expected to increase to about 22,000 tonnes this year (see chart). This increase reflects higher volumes of salmonid and shellfish production. The industry continues to focus on three primary species: steelhead trout, Atlantic salmon and blue mussels.

Aquaculture Production and Value



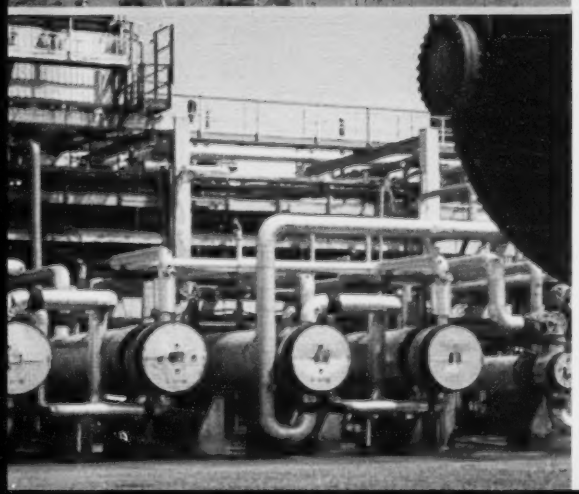
p: preliminary; f: forecast

Source: Department of Fisheries and Aquaculture

Total market value for aquaculture production is expected to decline in 2012. Prices for shellfish have stayed on par with previous years, however, during the previous 12-month period there has been a marked decline in salmon prices, following historic market highs. Lower market prices can be largely attributed to increased supply in the marketplace and ongoing economic pressures in major markets.

The province's aquaculture industry has a reputation for high-quality seafood produced in an environmentally-sustainable manner. Support infrastructure, including hatcheries and wharves, is being developed across the province to ensure continued high-quality production that adheres to industry best-practices.

Aquaculture-dedicated wharves are being developed to enhance biosecurity protocols and provide separate infrastructure for aquaculture and other marine activities. A wharf in Harbour Breton is currently under construction and is expected to be completed by 2013. Two other wharves for Milltown and the Belleoram area are currently in the planning phase.



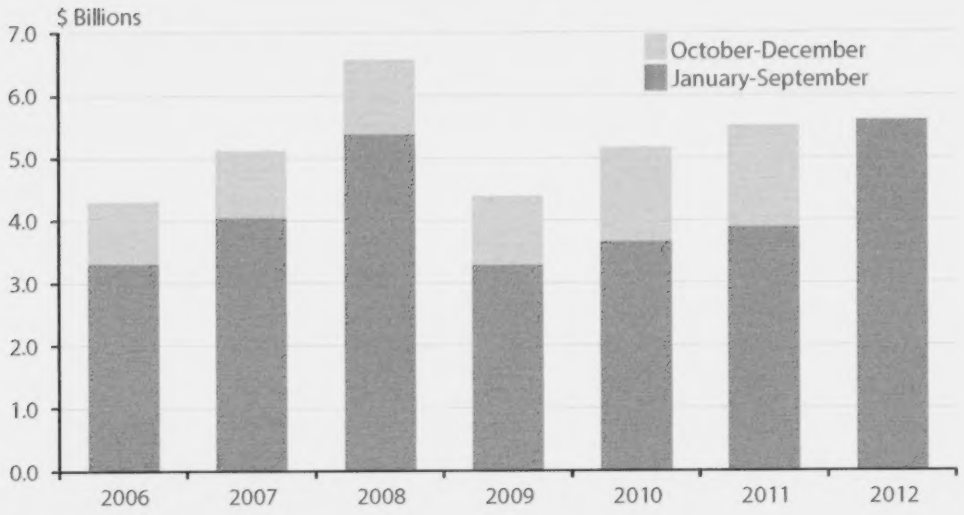
Manufacturing

Manufacturing accounts for roughly 3% of GDP and 5% of total employment in Newfoundland and Labrador. There are many manufacturers in the province producing a wide variety of products, however most activity is concentrated in three major groups—food processing (mainly fish), newsprint and refined petroleum. There were 454 manufacturing firms registered in Newfoundland and Labrador in 2011, representing 2.7% of all registered businesses in the province.

The value of provincial manufacturing shipments increased this year mainly due to higher production of refined petroleum. For the first nine months of 2012, shipments rose to almost $5.6 billion, representing an increase of 43.6% compared to the same period last year (see chart). Nationally, the value of manufacturing shipments rose 4.9% over the same time frame.

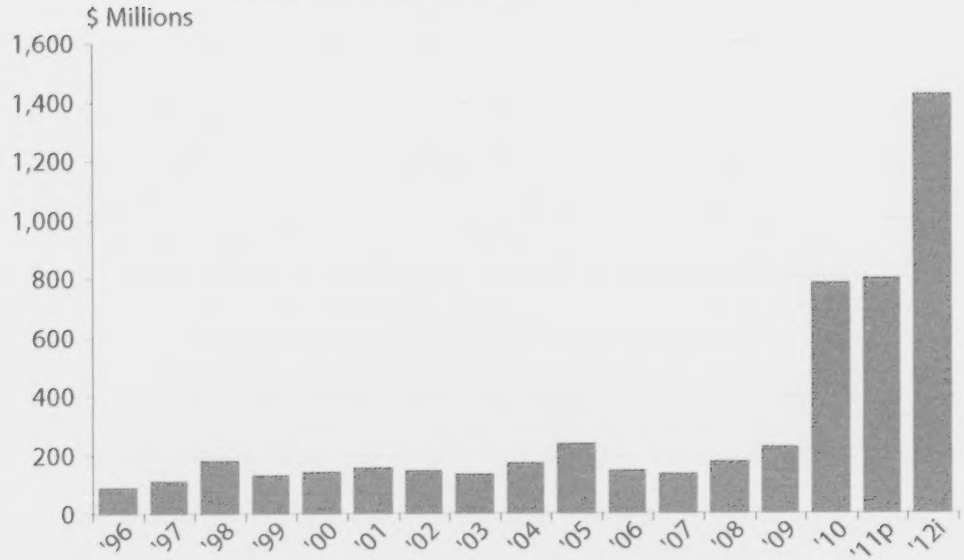
According to Industry Canada, the value of refined petroleum product exports from Newfoundland and Labrador rose significantly during the first nine months of 2012 versus the same period last year. This increase was due to higher production at the province's only refinery located in Come By Chance. Harvest Operations Corp., owners of the North Atlantic refinery, performed a three-month maintenance turnaround which shut down production from May until mid-August in 2011. As a result, the volume of production at the refinery in the first three quarters of 2012 was up 64%, and the value of sales increased about 62%. Capital expenditures at the refinery for the first three quarters of 2012 totalled $32.7 million, of which a portion was spent to advance a $300 million debottlenecking project that is expected to increase product yield value and improve the energy efficiency of the refinery. The project began in November 2010 and is scheduled to be completed in 2013.

Manufacturing Shipments



Source: Statistics Canada

Manufacturing Investment



p: preliminary; i: intentions
Source: Statistics Canada

The value of manufactured fish products for the first nine months of 2012 increased by over 8.7% compared to the same period in the previous year, reflecting higher prices for some species and increased aquaculture production (see *Fishery* for details).

Paper product shipments from Corner Brook Pulp and Paper Limited declined by 3.2% in the first nine months of 2012. The decline reflected lower shipments of directory paper which more than offset an increase in newsprint shipments (see *Forestry and Agrifoods* for details).

Manufacturing employment averaged 11,900 in the first 10 months of this year, representing an increase of 9.6% over the same period in 2011. Fish processing employment decreased by about 300, while manufacturing employment outside of fish processing increased by about 1,300. Some of this increase in employment is due to higher employment levels at the Marystown shipyard related to maintenance work on the *Terra Nova FPSO*.

Labour income in the manufacturing industry also increased this year—up 5.8% in the first half of 2012 compared to the same period in 2011. This was due to wage gains, the increase in employment and changes in the composition of jobs in the industry (i.e. increased portion of manufacturing jobs that have a higher salary).

Investment in manufacturing remains robust. Capital expenditures in manufacturing are expected to total about $1.4 billion in 2012, up 77.8% from 2011 (see chart). Investment this year is being boosted by the continued development of Vale's US$3.6 billion nickel processing plant in Long Harbour. Vale expects capital expenditures on the project to total US$1.2 billion in 2012. The nickel facility is expected to boost the province's manufacturing shipments substantially when operational.

While the bulk of manufacturing activity is concentrated in large-scale commodity processing, advancements continue to be made in other segments of the manufacturing industry (those that produce smaller, more specialized products). Five research and development projects involved in the province's ocean technology, information technology and medical research sectors received nearly $14 million in funds from the federal government in May 2012. These projects include firms such as Verafin (fraud detection software) and Bluedrop (e-learning).

Construction

The construction industry has recorded significant growth over the past five years, with record investment, employment and wage levels expected again in 2012. Construction investment in Newfoundland and Labrador is expected to rise to $7.5 billion in 2012, up 28.2% from 2011 (see table). This represents the strongest growth among the provinces. Growth in construction expenditures was led by the private sector which is expected to account for 90% of construction spending. Within the private sector, resource-based major project activity has played an important role in the strong performance, as has residential activity.

Construction Expenditures

Non-residential expenditures, at 76% of the total, are expected to account for the largest portion of construction investment in 2012. This sector could reach almost $5.7 billion in investment expenditures in 2012, up 41.3% from the record levels of investment experienced in 2011. The advancement of major projects, in particular activity related to the Long Harbour nickel processing facility and the Hebron offshore oil project, contributed to growth in construction expenditures in 2012. In addition, public sector investment in infrastructure (i.e. the Trans Labrador Highway, new student residences at Memorial University, and a number of new long-term care facilities) supported spending.

Construction Expenditures

($ Millions)

	2011p	2012i
Non-Residential	4,027.8	5,690.7
% Change	37.8	41.3
Residential	1,811.2	1,792.8
% Change	3.9	-1.0
Private	5,061.0	6,714.2
% Change	35.0	32.7
Public	778.0	769.3
% Change	-15.1	-1.1
Total	5,839.0	7,483.5
% Change	25.2	28.2

p: preliminary; i: intentions
Source: Statistics Canada

Investment in residential construction remained strong in 2012, with year-to-date numbers on pace to match the record level of investment seen in 2011. Higher expenditures on new dwellings (+11.4%) offset a decline in spending on renovations (-7.8%) in the first half of the year. This is consistent with the 12.7% increase in housing starts in the first nine months of the year (see *Real Estate*).

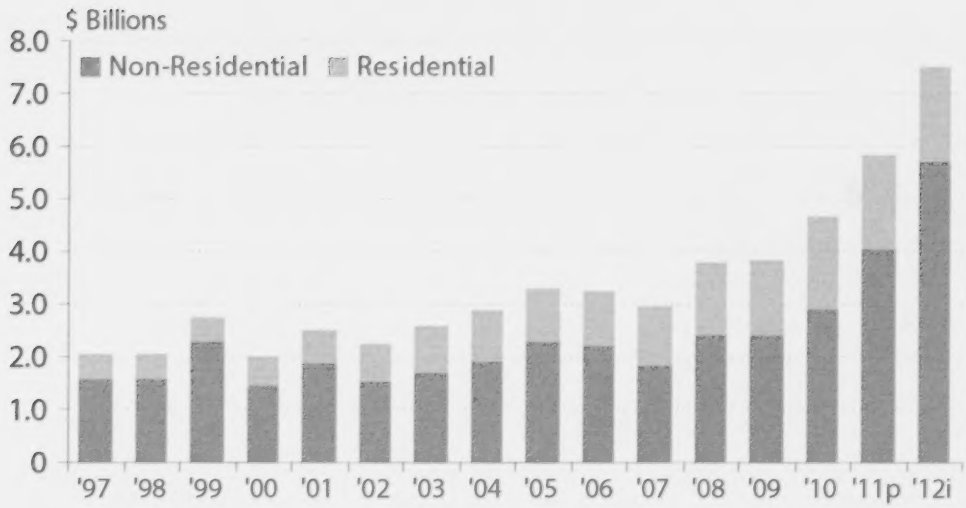
Construction Employment and Wages

The recent strength in the construction industry has benefited construction workers. Construction wages have increased considerably over the last five years (see chart). Between 2007 and 2012 construction weekly wages in Newfoundland and Labrador increased more than in any other province. In 2012 average weekly earnings, through the month of August, increased 13.2% compared with the same period in 2011. Average employment in the construction industry in the January to October 2012 period was the highest level ever recorded in the province. Major project development, combined with the strength in new home construction, significantly contributed to increased employment.

Major Capital Spending

According to an inventory of major projects compiled earlier this year, about $28 billion in major capital spending is planned or underway in the province. The Mining, Oil and Gas sector tops the list at about $13 billion. The Hebron oil project is the single largest item in the sector with a total estimated cost of $8.3 billion. According to the Atlantic Provinces Economic Council, Newfoundland and Labrador dominates capital spending projects in Atlantic Canada, accounting for 48% of overall project activity.

Construction Investment



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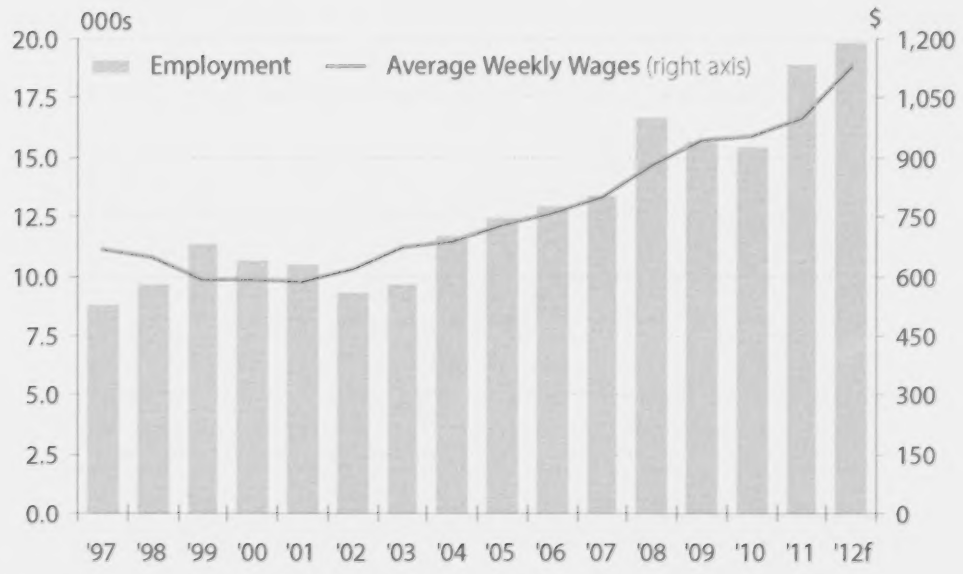
Source: Statistics Canada

Construction Wages and Employment



f: forecast
Source: Statistics Canada; Department of Finance

Real Estate

The residential real estate market in Newfoundland and Labrador remained solid in 2012. High levels of employment and income continued to buoy demand for housing. Housing starts, sales and prices are on pace to post another strong year. The residential rental market remained challenging for renters, with low vacancy rates and higher rents.

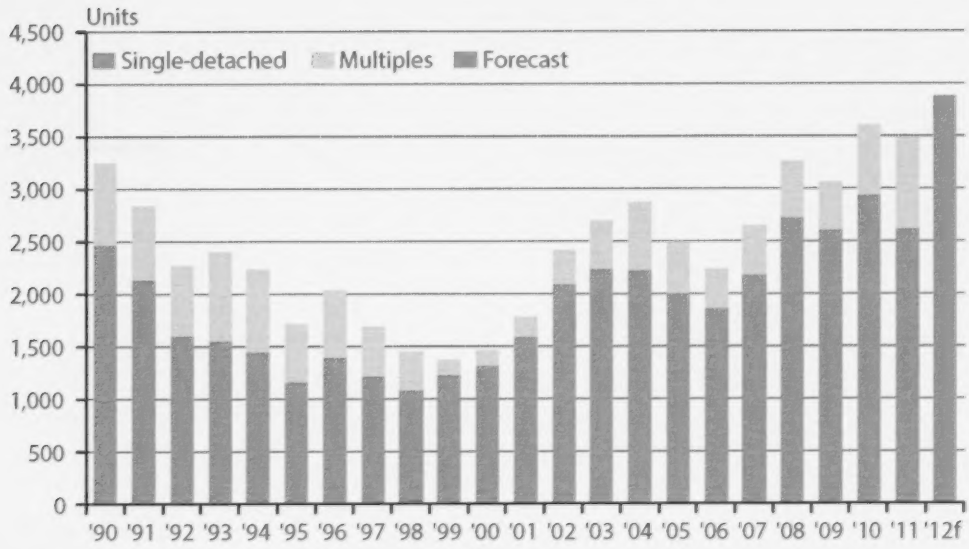
Housing Starts

Over the first three quarters of 2012, housing starts totalled 2,887 units, up 12.7% compared to the same time period in 2011. By comparison, housing starts were down 1.5% in the Maritimes and up 14.4% in Canada over the same period.

A trend towards fewer single-detached starts (which typically account for about 80% of total starts in the province) and more multiple starts (which include denser housing types, such as row, semi-detached homes, apartments and condominiums) continued in the first three quarters of 2012. Single-detached starts declined by 3.0% to 1,842 units, while multiple starts increased by 57.9% to 1,045 units, compared to the first three quarters of 2011. In the St. John's Census Metropolitan Area (CMA) the increase in multiple starts was 36.8%. Factors contributing to the increase in multiple starts likely include tight conditions in the rental market, increased affordability and an aging population.

Compared to the first three quarters of 2011, urban housing starts (which account for approximately two-thirds of housing starts in the province) were up 8.5% to 1,909 units, while rural starts were up 21.9% to 978 units.

Housing Starts



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Source: Canada Mortgage and Housing Corporation; Department of Finance

For the year as a whole, total housing starts are forecast to reach 3,880 units, an increase of 11.2% from 3,488 in 2011 (see chart). If realized, this would be the highest number of starts in over 35 years.

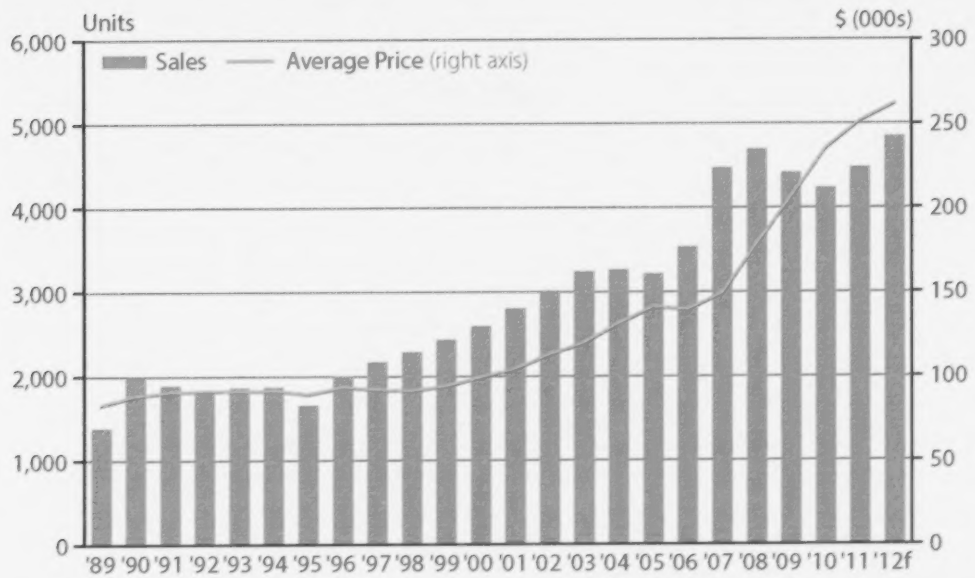
Residential Sales Activity and Prices

During the first nine months of 2012, residential sales activity and prices increased significantly on a year-over-year basis. The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service® (MLS®) was 3,480, up 8.7% from the same period in 2011. Sales are on track to post the highest level ever in the province (see chart). Sales activity was on par with 2011 for January through April, then rose by 61.5% in May and June before falling below last year's levels for July through September. This decline may be partially explained by tighter mortgage regulations announced in June 2012, aimed at cooling the housing market. Sales activity in St. John's was up 11.5% during the first nine months of 2012. Nationally, residential resales were down 2.8% over this same period.

During the first nine months of 2012 the average MLS® residential price in the province was $266,098, an increase of 7.2% compared to the same period in 2011 (see chart). The average MLS® residential price during the same period in the St. John's CMA was $281,883, an increase of 6.6% over 2011. Active listings (a measure of inventory in the

resale housing market) were up 1.9% in the St. John's CMA during the first nine months of 2012, compared to the same period last year. Nationally, the MLS® average resale price showed no change compared to the first nine months of 2011.

Residential MLS® Sales and Average Price



f: forecast
Source: Canadian Real Estate Association

Rental Market

Residential rental vacancy rates have been relatively low throughout Newfoundland and Labrador in recent years. Vacancy rates in urban areas edged up from 2.1% in April 2011 to 2.7% in April 2012 (latest data available) but remain historically low and well below the high of 15.4% reached in 1997. In April 2012 vacancy rates were 1.3% in the Corner Brook Census Agglomeration (CA), 3.3% in the St. John's CMA, 0.9% in Gander and 1.8% in the Grand Falls-Windsor CA. Although vacancy rates are low, rents remain affordable compared to the rest of Atlantic Canada. In April 2012, the average monthly rent for a two-bedroom apartment in Newfoundland and Labrador was $727, up from $683 in April 2011. This compares to $884 in Nova Scotia, $778 in Prince Edward Island and $696 in New Brunswick. It is expected that strong labour markets, in-migration, higher housing prices and the revised mortgage regulations will continue to keep vacancy rates low and place continued upward pressure on rents.

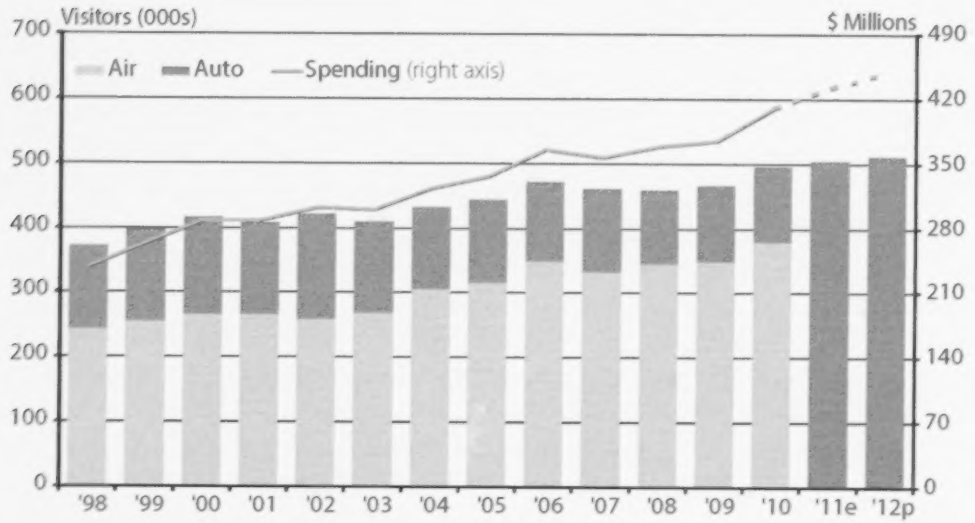
Travel and Tourism

Global and National Travel

International tourism demand continues to grow despite concerns over weakness in the global economy (see *Global Economic Environment*). The number of international tourist arrivals worldwide grew by 4.1% during the first eight months of 2012 compared to the same period in 2011. International arrivals were up in most major areas, with the Asian region leading growth. According to the World Tourism Organization, the number of overall international tourist arrivals is expected to expand by between 3% and 4% this year and surpass the one billion mark.

International travel to Canada increased in 2012. During the first nine months the number of trips was up by 1.7%, reflecting more visits from both the United States and overseas. The growth in the U.S. market occurred despite a strong Canadian dollar, and reflected both higher same day and overnight trips. This was an encouraging performance as U.S. visitation to Canada had been on a downward trend for some time. Overseas, the only major market to post a decline in year-over-year activity was Europe, where the number of visitors dropped 2.2%. This decline may reflect the economic uncertainty in this market as well as the Summer Olympics in London which likely encouraged many European tourists to travel within Europe.

Non-Resident Travel and Tourism Visitors



e: estimate; p: projection
Data for 2011 and 2012 are estimates and are subject to revision pending the results of the 2011 Air Exit Survey carried out on behalf of the Department of Tourism, Culture and Recreation.
Source: Department of Tourism, Culture and Recreation

Provincial Travel

The Newfoundland and Labrador travel and tourism industry continued to perform well in 2012. The number of non-resident visitors is projected to be up over the previous year on the strength of air visitors. Newfoundland and Labrador outperformed all other Atlantic Provinces over the January to September period with respect to growth in overall airport passenger movements. While all provinces recorded a drop in accommodation room night sales, this province experienced the smallest decline. Average accommodation occupancy rates were essentially on par in both Newfoundland and Labrador and New Brunswick, up in Nova Scotia and down in Prince Edward Island in the first nine months of 2012 compared with the same period of 2011.

Air travel is the largest segment of the province's non-resident tourism sector, accounting for approximately 73% of visitors and 82% of spending in 2010 (latest data available). The implementation of a new 12-month air exit survey in 2011 has delayed the release of non-resident air visitor estimates until later this year. However, overall air passenger movement statistics from Transport Canada suggest that non-resident visitation (by air) continued to rise in 2012. During the first 10 months of 2012 passenger movement at the province's major airports increased 8.4% over the same period in 2011. This growth is consistent with increased airline seat capacity. Inbound direct seat capacity is expected to be up 2.2% in 2012. The increase is mainly driven by domestic flights, although expanded capacity has also been noted for flights from the U.S. and other international destinations.

Intra-provincial seat capacity is expected to increase 7.3% in 2012. This follows growth of 5.5% in 2011. The increase in 2012 is driven entirely by capacity growth to Labrador destinations (i.e. Happy Valley-Goose Bay and Wabush) which is up over 27%. Business travel associated with major project development in Labrador is driving capacity growth on these regional routes.

Non-resident automobile visitation continued to decline in 2012, despite efforts to improve the transportation service between the province and Nova Scotia. Automobile visitation is expected to be down about 2% this year to approximately 105,800. Based on January to October data, the bulk of the decrease is from the Maritimes (-2.7%) and the U.S. (-3.8%). Travelling by auto continues to be challenged by many factors, including increasing ferry rates and associated fuel surcharges, high gasoline prices, unexpected downtime in ferry schedules, and the competing convenience of air travel.

St. John's and Corner Brook, the province's two largest cruise ship ports, both recorded increases in cruise ship activity this year. In fact, Corner Brook reported record breaking cruise activity in 2012—passenger visits went from 3,851 in 2011 to 26,811, and surpassed the port's previous best season posted in 2007. This increase has been attributed in part to more aggressive promotion of the city as a port of call. In St. John's, passenger visits increased about 25% from 10,673 in 2011 to 13,318 this year.

Occupancy rates indicate another solid year for the accommodation industry. The provincial occupancy rate reached 52.9% for the first nine months of 2012 essentially on par with 53.0% for the same period in the previous year. Gains in occupancy rates in the Labrador (+5.0 ppt.) and the Avalon (+1.5 ppt.) regions offset losses in the Central (-2.4 ppt.), Western (-1.8 ppt.) and Eastern (-0.6 ppt.) regions. Preliminary data also indicated an increase of 5.4% in the provincial average daily accommodation room rate during the first nine months of 2012.

Advanced technologies continue to impact how the province is marketed to travellers. Newfoundland and Labrador Tourism launched a new tourism application (app) for mobile devices this year. The app is an extensive, complete and current source of provincial travel information and includes smart searching and location features for tourism services. It also provides users with access to the latest blogs and social media postings.

Over 50,600 enquiries for provincial travel-related information from all sources (i.e. web, email, telephone) were reported in the first 10 months of this year. In addition, approximately 1.4 million visits were registered at the province's tourism website during the period. Together, this represents an increase of about 27% compared to the same period of 2011.

GDP & EMPLOYMENT

	Gross Domestic Product		Employment	
	2011p		2011	
	$ Millions	% of Total	Person Years, 000s	% of Total
Goods-Producing Sector	**17,621.0**	**55.6%**	**48.9**	**21.7%**
Agriculture	76.5	0.2%	2.0	0.9%
Forestry & Logging	133.5	0.4%	0.9	0.4%
Fishing, Hunting & Trapping	217.9	0.7%	3.8	1.7%
Mining	3,300.0	10.4%	3.6	1.6%
Oil Extraction and Support Activities	10,350.0	32.7%	7.0	3.1%
Manufacturing	1,000.4	3.2%	10.6	4.7%
Fish Products	329.1	1.0%	4.2	1.9%
Other	671.2	2.1%	6.4	2.8%
Construction	1,867.6	5.9%	18.9	8.4%
Utilities	675.1	2.1%	2.2	1.0%
Services-Producing Sector	**14,062.0**	**44.4%**	**176.4**	**78.3%**
Wholesale Trade	713.9	2.3%	5.6	2.5%
Retail Trade	1,362.5	4.3%	33.0	14.6%
Transportation and Warehousing	819.1	2.6%	10.5	4.7%
Finance, Insurance, Real Estate & Business Support Services	3,427.2	10.8%	13.5	6.0%
Professional, Scientific, & Technical Services	780.6	2.5%	8.7	3.9%
Educational Services	1,353.0	4.3%	17.9	7.9%
Health Care & Social Assistance	2,023.1	6.4%	35.3	15.7%
Information, Culture & Recreation	737.9	2.3%	7.6	3.4%
Accommodation & Food Services	449.0	1.4%	12.6	5.6%
Public Administration	1,877.2	5.9%	19.9	8.8%
Other Services	518.5	1.6%	11.8	5.2%
Total, All Industries	**31,683.0**	**100.0%**	**225.4**	**100.0%**

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Department of Finance

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